

TREASURY

OF 83/154/01
PART A.

FILE NUMBER

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FILE TITLE

PLAN FOR ISRAELI ARAB SETTLEMENT
INVOLVING ISRAELI COMPENSATION
TO ARAB REFUGEES

FINANCIAL IMPLICATIONS FOR HMG
(OF INTEREST)

W
1961

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TREASURY

SECRET

FILE BEGINS 24.2.55

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PART **A**

FILE TITLE

Plan for Israel Arab Settlement
involving Israel compensation to Arab
Refugees.
Financial implications for H.M.G.
(O.F. Interest).

FILE NUMBER

OF
83 | 154 | 01

INDEX HEADINGS

ISRAEL

REFUGEES and
DISPLACED PERSONS

1958

CLASS No T 236

PIECE No 4423

REFER TO	DATE	REFER TO	DATE	REFER TO	DATE
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	2/1/57				
	26/1/56				
	3/11				
	12/1				
	13/6/57				
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	23/5/62				
1962					
30	24/5/62				
Ref	25/1/62				

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I.F. 592/238/01 (T.S.).

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REFERENCE CM (55) 15th Conclusions

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SIGNED *D. Matthews* DATE *5/6/86*

A.
SECRET

Second Draft

February 24, 1955.

Report by the
London Working Party on
Compensation, Repatriation and Resettlement
of Palestine Refugees

Assumption: there might be sufficient improvement in Arab-Israel relations to permit negotiation (in private, and without the conclusion of a peace) of a general settlement covering abatement of economic warfare, rationalisation of armistice lines, and compensation or repatriation of Arab refugees.

Task: consider the assessment, financing and distribution of compensation; the prospect of repatriating some of the refugees; and the result of these and other possible operations in terms of resettlement of the refugees.

/SUMMARY

SECRET

SUMMARY OF CONCLUSIONS

A. COMPENSATION

I Assessment

The London Working Party concludes:-

- (a) That Israel should pay compensation for the immovable property of Arab refugees,
- (b) That the compensation due from Israel in respect of movable property should be set off against, and cancel out, Israel's claims to compensation for damage done and property lost in the course of hostilities.
- (c) That the estimate of £100 m. made by the P.C.C. in 1951 should be the basis of compensation for the immovable property.
- (d) That this figure should be increased by £18 m. in respect of loss of use and rents since the ending of hostilities, and by a further £10 m. in respect of loss of tenants' rights.
- (e) That the P.C.C. should be asked to ensure that the aggregation of the individual claims which it is now assessing does not result in a different total from the 'global' figure of £100 m. already adopted by the Commission.

II Financing

- (f) That compensation as above should be financed by the Government of Israel which would recoup itself in part by foreign assistance which might take the form of a development loan bearing interest and amortised over 60 years.
- (g) That Israel's capacity to pay involves a pattern of financing as follows:-

	Israel (minimum)		£10 m.
<u>Loan</u>	World Jewry	£25 m.	
	U.S. Government	£83 "	
	U.K. Government	£10 ".....	<u>£118 m.</u>
			<u>£128 m.</u>

/III.

III Distribution.

(h) That full and final settlement of each claim, allowing appeals to arbitration, would be impossible and therefore,

(i) That £100 should be paid to each family as soon as it elects to leave UNRWA. This would involve an outlay of up to £18 million spread possibly over 10 years.

(j) That on completion of the P.C.C. assessment the balance of claims up to £2000 per family should be paid, and the families receiving £1000 or more should be automatically struck off the ration rolls. This would involve a net outlay of about £67 million in the fourth and fifth years.

(k) That the balance of claims over £2000 per family should be invested in a bank with refugee and P.C.C. representation on the Board, in order to create further employment in the region. The outlay would be about £43 million from the fourth year onward.

B. REPATRIATION

(l) That with a view to reconciling Arab claims to a general right of repatriation with Israel's inability to take more than limited numbers, Israel should offer quotas for five years, but without any undertaking about the future. The most to be expected is that the five year total should be 75,000, plus a further 75,000 from Gaza if Israel accepts the strip.

(m) That Israel should undertake the settlement of Arab repatriates (not necessarily in their former homes) in the same way as she settles Jewish immigrants, but in liaison with UNRWA.

(n) That the costs of repatriation should (in order to avoid deductions by Israel from the compensation and consequent opposition by the Arabs) be borne by UNRWA, which would recover the amount spent on each individual family as far as possible from that family's compensation entitlement. The

/cost is

cost is not likely to exceed £10 million of which a high proportion might be recovered.

C. RESETTLEMENT

(o) That all possible measures should be taken to accelerate the general economic development of the Arab States which is a pre-condition of large-scale resettlement.

(p) That it is essential for the Arab governments to permit free movement, residence and employment of refugees throughout the region.

(q) That UNRWA should close down in Syria after five years but that it would be required for up to 10 years elsewhere.

D. RESULTS

(r) It is estimated that the foregoing proposals, if put into operation, might bring about the resettlement or dispersal of some 600,000 refugees over the next five years. The figure is arrived at as follows:-

110,000	refugees drawing over £1,000 compensation
	per family.
70,000	balance in Syria to be disowned by UNRWA
	in 1960.
70,000	likely to emigrate to Iraq.
150,000	to be repatriated to Israel.
200,000	to be settled by UNRWA in the Jordan Valley
	and Sinai.
<u>600,000</u>	Total

UNRWA's relief costs may be reduced to a half by 1960.

(s) That by 1965 it may conceivably be possible to resettle or disperse the rest of the refugees and thus disband UNRWA.

COMPENSATION

I. Assessment

Immovable property (ownership)

Published estimates of the value of immovable property in Israel abandoned by Arab refugees vary between thirty million and eight hundred and fifty million pounds sterling. Some of these estimates are mere guesses whereas others are considered valuations made, it is true, on a 'global' basis, but nevertheless supported by a considerable amount of evidence and careful analysis. Perhaps the most fully documented of these estimates, and at the same time the only one which emanates from a source not obviously partisan, is the estimate of one hundred million pounds sterling which was made in 1951 by the Refugee Office of the Palestine Conciliation Commission, adopted by the Commission, and submitted to the General Assembly, where it was not seriously challenged. Incidentally this figure falls between the most reasonable of Arab and Jewish estimates, namely those of Mr. Francis Kettaneh (£108-125 million) and Mr. Joseph Weitz (£70 million).

2. The total value of the property could be estimated also by making a separate valuation of each individual holding and aggregating the results. (The material for making such valuations exists to a large extent in the shape of the Land Registers and Tax Records of the Mandatory Government.) This work is now being undertaken by the P.C.C., but it is a slow process and must take several years to complete. Even when the work is completed it is doubtful whether the total will be any more reliable than the 'global' figure reached by speedier methods; and it might well be different. The reason for this is that, where there is no market to test results, valuation must depend very much upon the opinion of the valuer. From a mass of material he has to select that which is relevant and to attach to each item of information its proper relative importance. If he is an interested party it must be extremely difficult for him to prevent his feelings from influencing his judgment without his even knowing it. This is not to suggest that the work now being undertaken by the P.C.C. is a waste of time. On the contrary, it is very necessary

/for the

for the purpose of distribution of compensation that the separate value of each individual holding should be known, and the technical skill of Mr. Hadawi, who is directing the work for the P.C.C., is such that a proper relativity of value as between one holding and another can be relied upon.

3. The conclusion is inevitable that no useful purpose would be served by postponing negotiations until the case-by-case examination now proceeding under Mr. Hadawi is completed, even if it were expedited. We are satisfied that the 1951 estimate of the P.C.C. Refugee Office is a reasonable estimate of the 1947 capital value to the owners of the immovable property, and it should be adopted as the basis of negotiations, more especially as it has already been put to the Israel Government by the P.C.C.

4. If the figure of £100 million is adopted as the basis of negotiations, it would however be most unfortunate if the P.C.C. later arrived at some substantially higher figure by aggregating individual claims. It would be too great a coincidence that the aggregate of the individual valuations now being made should be exactly £100,000,000 and, in view of the fact that Mr. Hadawi is an Arab, a refugee, and a property owner, it will doubtless be more unless he is suitably directed. The P.C.C. should therefore be asked to ensure that this is done, and to shape the character of the operation which it is now undertaking in order to produce an analysis of the global figure which it has already adopted rather than a synthesis of new valuations. The aim of the operation would be to apportion the £100 million fairly between the claimants.

5. It should be noted that if Israel cedes territory including some Arab property (other than the demilitarised zones which are not covered by the assessment of £100 million) the value of that Arab property will have to be assessed urgently, on the P.C.C.'s 1951 basis, and be deducted from the £100 million. No further reference to the possibility is however made in the present report.

Immovable property (use and revenue)

6. Since the cessation of active hostilities in March 1949 the Arab owners have been deprived of the use of and revenues from the
/property.

property. Conversely, Israel has had the use of the property. The rents have been collected by the Custodian of Absentee Property, and he has sold some of the property, e.g. to the Development Authority, and has been credited with the purchase price; although both rents and prices have been fixed at only a fraction of what the property was worth in 1947. It is but simple justice therefore that the refugee owners should be reasonably compensated for the rents and use of property of which they have been deprived; and any settlement proposals which failed to do this would be unacceptable to the Arabs. To offer them as compensation the amounts standing to the credit of the Custodian would merely be regarded by them as an insult. On the other hand any attempt to estimate what was the value to Israel of the use of the property would lead to endless argument. It would seem better therefore that Israel should offer in lieu of the revenues from the property an arbitrary sum calculated at the rate, say, of 3% simple interest on the £100 million for a period of six years, which is roughly the period since the cessation of active hostilities. The amount would be roughly £18 million and it would be distributed among the ex-owners of immovable property pro rata with the £100 million which represents the capital value.

Tenants' rights

7. Although £100 million may represent fair compensation to property owners for the capital value of what they have lost, it does not include compensation to the large number of people, mainly town dwellers, who had statutory rights of occupation in property which they did not own. These rights arose from the rent restriction legislation which, broadly speaking, gave tenants the right to remain in occupation of their homes and business premises at rents which had often been fixed before the war and had fallen far behind market value. They were of real monetary value to those who enjoyed them and it is only just that these people, who include all those who had a roof over their heads which they did not own, should receive compensation. Moreover, if these rights had not existed the property

in question would have been of greater value to the owners who were almost all Arabs, and the compensation due to the latter would be increased accordingly, i.e. it would be more than the £100 million at which it has been assessed. It is logical therefore that Israel should pay compensation under this head i.e. for loss of tenants rights.

8. Unfortunately it is impossible to calculate such compensation by reference to property values. Even if one were in a position to deduct the tenanted value from the vacant possession value of each property, the aggregate of the results would not give the amount of compensation due. This is for the reason that if vacant possession were obtainable of all the properties, the vacant possession value of any particular one would be less. In other words, the fact that many, if not most, properties were tenanted, put up the value of those which were not. The compensation due to individual tenants under this head might therefore vary from almost nothing to several thousand pounds.

9. Nevertheless in spite of the impossibility of making a proper assessment, and on the assumption that everyone who was not an owner-occupier had at least a roof over his head, it is thought reasonable that £100 should be provided for each family so deprived of tenants rights. It is impossible to compute the numbers involved: they will include most families which had no immovable property; many who possessed a roof or an acre but depended on their tenancy of other property for a livelihood; and even a few who had tenants rights as well as title to substantial immovable property. For the sake of rough justice we consider that the last should be ignored and that compensation for loss of tenants rights should be confined to those owning less than a small amount of property of their own. We find some difficulty in deciding what this amount should be. If it were £500 we estimate that there would be 130,000 claimant families; if £400 - 125,000 families; if £300 - 115,000 families, and if

/£200 -

£200 - 100,000 families. These estimates are reasonably close together, and for the sake of calculating the funds required we have assumed that £200 is the right level. Therefore, for the 100,000 families involved, £10 million should be added to the total compensation bill for loss of tenants rights.

10. It is proposed (in the following Section on "Distribution") that every refugee family should receive an initial payment of £100, whatever the value of its immovable property or if it had no immovable property at all; but, on the foregoing assumption, no additional provision need be made under the head of loss of tenants' rights for financing the payments to those families who would in any case be entitled to £200 or more as compensation for lost immovable property, since the initial £100 paid to them would be recovered from the compensation eventually allotted to them.

Movable Property

11. The Refugee Office of the P.C.C. was asked by the Commission to assess the value of movable property abandoned in Israel by Arab refugees. It found that there was no way of discovering what the refugees took with them and what they left behind, but, in an attempt to carry out its task as far as possible, it made three estimates by different methods of the value, before the exodus, of all the Arab movable property in what is now Israel. The three figures were all within 10 per cent either way of £20 million, which may well have been more than mere coincidence; but, in its report to the Commission, the Office felt bound to emphasize that it was not in a position to draw any definite conclusion concerning the value of the property in question and a fortiori of the movable property which ought to be the subject of compensation.

12. The wording of this carefully phrased statement suggests that the Office felt that, even if it were possible to ascertain the value of the property which was actually abandoned, it did not necessarily follow that Israel should pay compensation for the whole of it. With this view we feel bound to agree.

13. In view of the impossibility of arriving at even the roughest estimate of the compensation which should be paid on account of Arab movable property, we suggest that this Arab claim should be set off against, and should cancel out, all Israeli counter-claims arising out of the hostilities. As well as compensation for damage caused to Jewish property in Israel, these claims would embrace the loss of Jewish property in Jordan, comprising two settlements near Jerusalem, with a total area of some 3,500 dunums, four settlements in the Hebron hills, with a total area of about 1,680 dunums, certain Jewish property in the Old City of Jerusalem, and about 64 dunums in Hebron town. The value of this Jewish property in Jordan which can rapidly be assessed when necessary by the P.C.C., may be taken for present purposes as unlikely to exceed £500,000 unless a special value attaches to that in old Jerusalem. Every effort should be made in negotiation to have it offset against the Arab refugees' movable property; but in the last resort it may be necessary to deduct its value (on the principle of like against like) from the £118 compensation for Arab real property and its revenue. This course would be better than a separate payment to Israel by Jordan -- at the expense of the Western Powers.

14. Two other items of property commonly regarded as "Jewish" and now in Jordan, call for separate mention. These are the Palestine Potash Company's works at the north end of the Dead Sea, and the Palestine Electric Company's hydro-electric plant at Naharyim. In view of the fact that the companies were

/British

British and not Palestinian, we think that the disposition of these items of property should be the subject of special negotiations.

15. There is also a large amount of property, sequestered by the Government of Iraq from Iraqi Jews who emigrated to Israel. The Israel Government informed the P.C.C. in November 1951 that it regarded these frozen assets as having a bearing on the amount of compensation due in respect of the property of the Arab refugees. (Paris, 14 November 1951). It may be that Israel has a claim against the Government of Iraq in respect of the sequestered assets of Iraqi Jews who have since become citizens of Israel. This claim (of which we have not been able to discover the magnitude) is, however, in a different category to that of the Arab refugees, since the Jews in question were originally citizens of, and residents in Iraq, and therefore subject to the laws of that country. The Iraqis would argue with some justification that these people left of their own free will or that if there was pressure it was applied by Israel. In our opinion the claim is not relevant in the present context.

16. Nevertheless it may be desirable, in the course of negotiation, to deal with it by making Iraq pay into the compensation fund for Arab refugees the amount of the frozen Jewish assets (less administrative expenses already deducted by the Iraqi Custodian), thus enabling Israel to reduce her payment to the fund and to make pro rata payments to the former Iraqi Jews. Otherwise there seems to be no method of clearing the issue between Israel and Iraq and putting the latter in a position to acquiesce in the general settlement.

/Documents

Documents

17. The cancellation of movable property claims should not preclude the restitution to their Arab owners of such documents, titles, etc. as are in Israeli official custody. Some of these, which relate to property outside Israel (e.g. life assurance policies, shares in foreign companies) are not included in the compensation proposed and Israel has no right to them. In any case they are useless to her, and deprivation of them results in unnecessary hardship to their owners. Other documents relate to property in Israel, and shares in companies whose property is in Israel. It is considered that Israel will have bought these by paying compensation for immovable, and indirectly for movable property. Nevertheless the documents may be necessary to help refugees establish their claims to compensation. Personal documents of no monetary value (e.g. birth certificates, certificates of succession, professional diplomas) should be returned to their owners. All documents should therefore be handed over to the P.C.C. for sorting and distribution. Israel must be assumed to have bought objets d'art books, valuable manuscripts etc.

Summary

18. The global estimate of compensation is therefore:-

For immovable property (ownership)	£100 million
For use and revenue	18 "
For tenants' rights	10 "
Total	<u>£128</u>

/II.

II FINANCING OF COMPENSATION

19. Psychologically and financially speaking, it would suit the Western Powers best if the cost of compensation were met by Israel without foreign assistance. As this is impossible, the next best course is for Israel to appear to pay. Foreign assistance will obviously be required but it should take the form not of grants but of loans. Moreover it is for consideration whether such loans as are subscribed abroad should not be devoted to a general purpose such as Israel's economic development, while the Israel Government itself contributes the whole amount necessary for compensation. An incidental advantage of floating a development loan rather than a "compensation" loan is that it would probably evoke a better response both from World Jewry and from the United States and United Kingdom legislatures.

20. Our opinion is that, because of the complete absence of "slack" in the Israeli economy, the Government could not make the necessary contributions, in foreign exchange, to the Compensation Fund without immediate and full cover through a so-called development loan. We do not think for instance that Israel could pay compensation and wait to recoup herself from the eventual proceeds of a development programme financed by the proposed foreign loan. Nevertheless, to the extent that even a facade of development loan might improve the reception by prospective subscribers, we recommend its adoption.

21. The first consideration is the capacity of Israel (a) to pay down part of the compensation in foreign exchange in order to restrict the size of the Loan, and (b) to service the Loan. It is assumed that the Loan will be issued over the three years which the P.C.C. will take to complete its assessment of the compensation due to each individual, and that repayment will be over say 60 years.

How much can Israel pay

22. This is a problem both of internal budgeting and of foreign exchange, and affects both the amount which Israel can subscribe to the

/Compensation

Compensation Fund and the amount which she can afford annually for the servicing of that part of the Fund which is raised by loans abroad.

23. Theoretical calculations, based on Israel's budget figures and balance of payments forecasts would lead to endless arguments with the Israelis and are unlikely to produce reliable results. For purposes of negotiation it seems inevitable that we should accept the two arguments which Israel will put forward to keep her contribution as low as possible. These are that in present circumstances.

- (a) there is no slack in the internal economy from which to find a capital subscription; and
- (b) Israel can only provide foreign exchange in addition to her present commitments if this is in fact supplied by other countries: in addition to the aid which she is already receiving. (This includes German reparations. If the diversion of German goods were proposed, as compensation to the Arabs, it would be unacceptable to the latter who want cash and not the thin end of Israeli commercial enterprise).

24. A settlement of the Arab dispute would however improve the Israeli financial situation in the following ways:

(a) Internal financing:

(i) The value in cash and property of Arab properties held by the Jewish custodian would become a realisable asset of the State of Israel once her obligations towards the Arabs had been discharged by an agreement on compensation. In theory her holding should be worth £100 million. But much of the property has been disposed of for little or nothing and much of it is leased at nominal rents. On the other hand, in so far as Jewish settlers have had the use of the property it has added to the real wealth of Israel. It might be argued therefore that on this basis the State of Israel should be able to afford a capital contribution equal to a fixed proportion of the £100 million. A more realistic approach

/however,

however, would be to say that Israel should make a capital contribution from this source equivalent to the present cash value in Israel of what the Custodian is holding, or to £10 million, whichever is the greater sum.

(ii) There should also be a saving on defence expenditure if a settlement is guaranteed by the Western Powers. The estimated defence budgets for 1955 (both ordinary and extraordinary) amount to about £24 million. There seems no reason why Israel should not save a fifth of this, which would be sufficient to service the proposed loan, including that part subscribed by the United States and United Kingdom Governments.

(b) Foreign Exchange:

(i) On the assumption that UNRWA will pay for the cost of repatriation of Arabs to Israel (see paragraph 61 below), UNRWA will have to buy up to £10 million worth of Israeli currency. The foreign exchange which accrues to Israel should be used to convert the Israeli capital subscription to the compensation Fund at (a) (i) above. In fact UNRWA's expenditure on repatriation seems likely to be less than £10 million or than the amount Israel can afford to subscribe to compensation ((a) (i) above); therefore the limiting factor on Israel's subscription is one of balance of payments rather than of internal budgeting.

(ii) The lifting of the Arab blockade would save Israel over £1 million of foreign exchange on oil imports alone, and perhaps as much again on general imports including defence. In addition, it is possible that, if a general settlement makes conditions in the area more stable, Israel might attract increased foreign aid. This should make it possible for Israel to convert into foreign exchange the amount required for servicing the loan at (a) (ii) above.

25. It will be seen that there is room for negotiation both on the figure of the capital subscription and on that of the servicing of the loan. On the former it is thought that the Israeli subscription

/should

should not be less than 10% of the total. To the extent that the Israelis cannot find this from the Custodian's funds they would have to accept some reduction in their standard of living and raise the money either by taxation or by a loan on the internal market. Servicing charges on say £118 million to be raised abroad would amount to about £4 $\frac{3}{4}$ m. per annum assuming an interest rate of 3 $\frac{1}{2}$ % and amortisation over 60 years. It should be remembered that the full sum will not have to be raised or serviced until the end of the three years. The figure could be reduced if the United States and United Kingdom Governments agreed to accept a smaller interest rate or to forego interest or even capital repayment. Some reduction in servicing charges seems inevitable unless Israel can find an additional source of foreign exchange. Such sources might be: United States aid, UNRWA expenditure on maintaining refugees in the Gaza Strip (see paragraph 53 below) page , foreign military expenditure, or the re-opening of the Haifa refinery for export.

World Jewry

26. The second source of subscriptions is clearly world Jewry. It has been suggested above that they would subscribe more willingly to a development loan than for compensation, which some Jews might contend to be a waste. The response from those outside the British Commonwealth might be limited by their holdings of previous Independence Loans, which have not been offered in the sterling area; but it is considered that the prospect of an Arab-Israel settlement justifies opening the appeal to British Jews also, in the hope of obtaining a yield throughout the world of say £25 million. The issuing of part of the loan in the Commonwealth would be a matter for discussion with the various Commonwealth Governments.

Western Powers.

27. While not disregarding the capital export from the sterling area which the Commonwealth Jews' subscription would involve, it is recommended that the United Kingdom Government should in addition lend Israel £40 million. This could be either in the form of a Government loan or of a subscription to the loan on the market mentioned in paragraph 19 above.

28. It is assumed that the balance of £83 million (less than two-thirds of the total compensation fund) would be provided by the United States Government.

/III DISTRIBUTION

III DISTRIBUTION OF COMPENSATION

29. The foregoing remarks on the assessment and financing of compensation have shown what limitations will have to be placed upon it. But compensation itself is a second-best substitute for full restitution of the property lost. In order therefore to make the operation acceptable compensation must clearly appear as just as possible not only to "the Arabs" but to individuals. Failure to take account of the individual would make it all too easy for interested claimants to sabotage the whole operation by agitation among the refugees. Justice should however be rendered quickly, both for the satisfaction of the claimants and, in this case, for the political effect desired. Rough justice may therefore be preferable to strict accuracy. At the same time it is important to ensure that large sums due to individuals make a contribution to the economic development of the area in which the refugees are to settle.

30. The justest method of distributing compensation would be to pay each claimant in full or pro rata, obtaining his acknowledgement that the payment was in full and final settlement. It would, however, take an impossibly long time to do this properly, including the establishment of machinery for appeals. Moreover, one could not even start this procedure until the final assessments by the Palestine Conciliation Commission were completed. According to the latest and most optimistic information from Jerusalem, this will take another two or three years. Thereafter it will in any case be necessary to advertise the list of properties identified by the P.C.C., and their recorded owners according to registers available, and to invite claims from non-recorded owners: either those who contest the ownership of identified properties or those whose property was outside the "settled" area of Palestine and has been inadequately registered or not at all.

31. Complete satisfaction of individuals being impracticable, it seems appropriate, while maintaining the general purpose of giving each claimant approximately what is due to him, to follow three principles in the distribution of compensation:-

- (a) In order not to postpone and diminish the effect of the operation, we should pay something out at once. This will have to be an arbitrary sum, because we cannot make advances against claims without knowledge of what the claims are.
- (b) A payment should be made to every family on the basis that each has lost some asset in leaving Palestine. Such a spreading of payments will also spread the incentive to disperse and leave the shelter of UNRWA.
- (c) While the minimum of restrictions should be placed on claimants, some measure must be taken to ensure that the important sums due to the richest refugees are invested in the Middle East economy, so as to create employment as far as possible for Palestinians in the same way as this capital did before the débâcle.

32. On the basis of these principles, it is recommended first that every family (say 180,000 average five-person families in the 900,000 refugees) should have the immediate right to £100 (or £20 a head - see below) as soon as the United Nations have approved the proposed initiative by Israel and funds have been transferred to the P.C.C. It is estimated that £100 would be enough to enable a five-person family to travel to a likely place of employment and set up house, when the breadwinner has found a job to go to. If adult members of a family wished to travel alone, arrangements might be made for them to draw their £20 separately. The sum would be paid only when the

/claimant,

claimant, and his family if any, had at his own request been removed from the UNRWA register, or when (under present UNRWA arrangements) he had been de-registered as self-supporting. If he had a claim to more than £100 compensation for real property, he would be assured of the balance of his claims (minus the £100 or other sum received if his entitlement to compensation for immovable property were £200 or more, because he would then not be counted a claimant to loss of tenants rights) at the date of the final P.C.C. assessment and pay-out.

33. Secondly it is recommended that those who are entitled to up to £2,000 at the final pay-out (this is estimated to be the cost of buying and launching a small farm or business) should be paid similarly without any condition save that of leaving U.N.R.W.A. It is for consideration in the light of experience whether claimants to say £1,000 - £2,000 should not be required to leave U.N.R.W.A. within a fixed time. Advisory bodies, to explain how to take advantage of existing facilities on the lines of our Citizens' Advice Bureaux, might be set up to help families, both those who claim their £100 straight away and those who eventually draw the full amount of their claim up to £2,000, to plan their departure. It seems advisable for this function to be carried out by UNRWA's placement bureau, which should keep track of those families successfully established in farming industry or commerce with a view to their employing other refugees wherever possible.

34. Thirdly any family entitled to more than £2,000 would be able to draw £2,000 provided they left U.N.R.W.A. at once, if
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in the Agency's care; but the balance should be disposed of by the P.C.C. in order to ensure that it is used productively in the Middle East and not either squandered or invested outside the area. There seems to be two main lines of approach to this question: one is that the P.C.C. (with such advisers as it finds necessary) should judge of the claimant's own plans to invest the money and, in effect, leave him to carry out such plans; the other is that a special development bank should be set up, which would "borrow" all claims above the £2,000 level, invest in local industry, agriculture, etc., and pay dividends to the claimant until such time as the bank is wound up and the capital repaid. It is clear that such restrictions on the claimant's right to use his money will be strongly opposed. The idea of the P.C.C. sitting in judgment on the claimant's investment plans is perhaps the less likely to be accepted; but it is thought that the proposal for a development bank could be adapted to make it not unattractive.

35. At the appropriate time practical and professional advice should be sought, but the following tentative proposals are put forward as a basis for discussion. The Bank should be a corporate body set up, by the refugees contributing the capital and by the P.C.C., under local law. It should be directed by its articles of association to:-

- (a) earn dividends for its shareholders;
- (b) invest (with regard to (a) above and to the security of its capital) so as to provide the maximum continuing employment in the Middle East.

/(c)

- (c) as far as possible concentrate their investments in countries permanently absorbing large numbers of Palestine refugees; and
- (d) continue in business for at least 20 years save by unanimous vote of the Directors.

In order to ensure regard for condition (d) the Board should comprise one director representing the P.C.C. as well as those elected by the refugee shareholders. It is estimated that there are roughly 11,500 refugee families with a total claim of about £43 million over and above their £2,000 each. Among them they could undoubtedly find shrewd Directors, able to earn them a return while adhering to condition (b) above. It is debatable whether much good would come of condition (c). We believe that the proposed undertaking would be stultified by attempts to force the Board in that direction or to confine it strictly to countries harbouring refugees. It is believed that productive investment in most parts of the Middle East would benefit the refugees indirectly, and that one cannot expect more than to restrict the Bank's activities to the region as a whole. If there were doubts about their cooperativeness, it could be laid down that no investments should be made outside the Middle East (e.g. in securities, pending suitable investment in the Middle East) without a unanimous vote. Provided such minimum safeguards are applied, it is considered that the Director representing the P.C.C. need not exercise strict oversight over the Bank's day-to-day work. Overt pressure towards investment in productive, long-term schemes would probably not be required; such pressure would no doubt be applied discreetly by the local Governments favouring the schemes.

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It is considered that the best seat for the Bank would be Jerusalem; partly because of the refugees' connexion with it, partly in order to stimulate commerce in the truncated city.

Machinery.

36. It should prove fairly simple to operate for foregoing system of distribution. Once the necessary agreement has been reached and the United Nations have approved the proposed initiative by Israel, it is suggested that the latter should pay not less than £20 million in the first year and the balance of the £128 million during the next two years (assuming that the assessment of individual claims takes that time) to the P.C.C. which would bank the money to earn interest until payments could be started. The first stage of payment would be that each head of family (or adult member of family, if treated separately) who applied to the P.C.C. with a certificate from U.N.R.W.A. that he (and family if appropriate) had been de-registered, would receive his £100, or £20 a head. U.N.R.W.A. would naturally have to check that each claimant was or had been a bona fide refugee - if not, he would be deprived of his ration card but not passed on to the P.C.C. Separate territorial measures are being considered to deal with the "economic refugees" of the frontier villages of Jordan, who could therefore safely be excluded by U.N.R.W.A. during this operation.

37. After final assessment of claims the same sort of procedure would apply to claimants seeking their final settlement; those claimants who had already received their £100, or other multiple of £20 a head, would be shown in the P.C.C. records, and (save for those entitled to £100 a family for loss of tenants rights i.e. those with a claim to less than £200 for loss of real property and revenue) they would be given their earlier receipt in lieu of whatever had been issued, plus the balance due to them up to £2,000.

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The arrangement suggested in paragraphs 34 & 35 above would come into operation for the bigger claimants.

38. The refugees would naturally have varying currency requirements according to their proposed destinations. The P.C.C. would therefore have to be able to acquire the currency of any of the Middle East countries, and it would be impracticable for the Commission to accept payment from Israel in Israeli pounds. Arrangements would have to be made for Israel to pay in dollars and pounds sterling.

Repatriates

39. Those families repatriated to Israel cannot admittedly return "to their homes" and recover such movable property as they may have lost but they are nevertheless to be provided with new homes and property in Israel. It is therefore considered that they should not receive £100 per family on leaving U.N.R.W.A. Their claims to the £100 and to further compensation for real property and lost revenues should be held temporarily by the P.C.C. in order that U.N.R.W.A. may reclaim from this amount the sums it may expend on assisting the Israel Government to rehabilitate these families. Any balance theoretically outstanding after the settlement of U.N.R.W.A.'s bill should however be transferable to the claimant in Israel.

Economic Effects.

40. The fear has been expressed that inflation will be caused by the injection of £128 million into the economy of the countries where the refugees are. The problem appears, however, less serious from this point of view if it is remembered that apart from the £43 million to be invested in the Bank (which should not create inflation) the rest of the money (£85 million) will be divided between these countries approximately in the proportions in which the refugees finally settle in them. Moreover the method of distribution of the amounts which make up the total will vary.

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The division of the £85 million according to the countries in which the refugees may settle (see Resettlement chapter below) might result in something like the following figures:

Jordan	£20 million
Syria	£25 "
Iraq	£20 "
Egypt	£ 8 "
Lebanon	£ 8 "
Israel	£ 4 "

Given an expansion of the general economy in these countries, these sums should not be such as to have a serious inflationary effect. Indeed experience in Iraq suggests that, provided the receipt of large amounts of unearned wealth is accompanied by a vigorous development programme, the problems of inflation can be kept under control. As regards timing, the sum of £18 million required for the payment of £100 per family may only be paid out over as long as 10 years. The sum of £67 million (nett) required for the payment of claims up to £2,000 will mainly be paid out between the 3rd and 5th year, but it can be expected that the bulk of this will be invested in productive enterprises. So far from creating inflation therefore, it may be hoped that the greater part of the money paid out in compensation will go towards creating an increase in the real wealth of the area.

Political Effects.

41. The political reception of this scheme should not be so bad as to make it impracticable if emphasis is laid on:-

- (a) The fairness of the global assessment (the P.C.C.'s 1951 figure is close to that of Mr. Francis Kettaneh and Doctor Joseph Weitz) and also the provision for interest;
- (b) The payment of £100 even to the poorest families either for loss of tenants rights or as a token payment against real property claims;

/(c)

(c) The claimant's temporary right to stay with U.N.R.W.A. while awaiting payment of his claim or an advance against it; and

(d) The fact that the only restriction (on the richer refugees) is for the benefit of the community and the region.

REPATRIATION

42. The following section involves some rearrangement of the items set out in the Working Party's terms of reference. It deals in turn with general issues; with the "Gaza proposal"; with the machinery, including the responsibilities of U.N.R.W.A. and of the Israel Government; and with the question of finances.

General

43. The object is to fulfil, as far as possible, that part of the United Nations Resolution of December 1948, which says that "refugees wishing to return to their homes and live at peace with their neighbours should be permitted to do so at the earliest practicable date [and that compensation should be paid for the property of those choosing not to return]".

44. In practice, we must take account of two contradictions. First the Arabs' insistence on the right of all refugees to repatriation, as opposed to Israel's limited capacity and willingness to receive them all back. From Israel's point of view the Arab minority in the country constitutes a problem and a weakness, and it is not in her interest to increase this minority especially where the land would otherwise be used by immigrants of Jewish origin. It is also true that the Arab minority in Israel will (despite any formal guarantees given by the Israel Government) be treated as a minority body, with all the disadvantages of that status.

45. Secondly, we have to reconcile the Arabs' desire to return to their homes, with the fact that Israel cannot, politically speaking, evict the Jews now occupying those homes.

46. We have therefore to find a formula which can be broadly understood on the Arab side as a general offer of repatriation, but which in practice will bring forth only a limited response and will result in those people who do accept settling elsewhere in Israel than in their homes. In the first place, Israel should be induced to state her intention of carrying out the United Nations Resclution, as regards repatriation, to the fullest extent practicable. Such reference as has to be made to her inability to allow the prompt re-entry of all the refugees and to the restriction of the number whom she could admit, should obviously dwell upon the practical limitations and play down the political ones. In order to obtain the best reception from the Arabs, it is proposed that Israel should declare that, in order to accommodate any refugees who wish to return and live peaceably in Israel, she will provide an annual immigration quota and will set aside land or provide employment for the refugees in question. Without giving any undertaking to continue repatriation after, say, five years, she should lay down the quotas for those years, achieving a total which would be the number agreed in negotiations with the western powers to be the maximum she could be expected to absorb. It is proposed that this should be 75,000.

47. This total is recommended in the face of advice from Her Majesty's Embassy in Tel Aviv. They report that the hill country of Galilee is the only area still predominantly Arab, while the hills bordering the Lebanon frontier and those bordering on the west of Jordanian Hebron are the only former Arab lands not being rapidly settled by Jews. But the Hebron and Lebanon border lands would be regarded by Israel as unsuitable for

/Arab

Arab repatriates for security reasons. Moreover, the former might be ceded to Jordan under the Gaza proposal. In any case the Hebron border area was reported in 1938 to be congested and incapable of more intensive development because of the lack of water; while the agricultural absorptive capacity of Galilee was considered, at the same time, to be 105,000 persons including the then population of 90,000. Even assuming that the expected natural increase of 1938-55 has been offset by emigration from Galilee, there is small prospect of settling 75,000 repatriates there.

48. Nevertheless Israel must be driven to make the utmost contribution to solving the refugee problem. She can also absorb labourers and artisans as well as farmers; and in any case her repatriation quotas must appear as large as possible in order to make the proposed settlement acceptable of the Arabs.

49. If Israel insists, in negotiations, on some impossibly low quota for repatriation, on the ground that she cannot swell the Arab minority within her frontiers, it should be proposed seriously that she might cede additional border lands capable of taking appreciable numbers of refugees.

Gaza Proposal

50. It has been suggested, that, if Egypt will not accept sovereignty over the Gaza strip, including responsibility for the 105,000* original inhabitants and the 212,000 refugees, Israel should be induced to take it over (ceding in return a crescent south-west of Hebron to Jordan) provided she retained and gave adequate guarantees to the original inhabitants and accepted for settlement in Israel, outside Gaza, up to 150,000 refugees (including the 75,000 in paragraph 46 above), giving first option to those in Gaza.

51. Assuming that the western powers and Israel agree, as suggested above, on a total of 75,000 immigrants during the first five years, Israel's acceptance of the Gaza proposal would mean her admitting during the same period an additional 75,000 refugees. Israel may well argue that it is not worth her while to take the Strip with

/such

* This figure is taken from a 1949 survey by the (London) Institute of International Affairs. H.M. Embassy at Cairo however have recently given the figure of 86,000, without naming the source.

such a large additional number of refugees, in which case the number would have to be reduced or the proposal abandoned.

52. It would be necessary to adopt a procedure giving some priority to Gaza refugees but not destroying the character of the general invitation to all refugees. It is believed that only a small proportion of refugees would in fact opt for repatriation, and it is suggested therefore that half the places in the first five years' quota should be open to all applicants, reserving the other half in the first instance for Gaza refugees. If less than this number of Gaza refugees chose to be repatriated, the quota for refugees elsewhere would be increased by the amount of the shortfall.

53. It is estimated roughly that say 12,000 of the 212,000 refugees may already have formed such ties with the original population as to be able to remain in the Gaza Strip. This, to the best of our knowledge, is as much as the Strip will hold, so that 200,000 "rootless" refugees have to be dealt with. Such of these as do not go to Israel (or Egypt: see paragraph 50) will have to be maintained by UNRWA in the Gaza Strip or be moved elsewhere. 50,000 of them may expect to be settled by 1960 in Sinai and could perhaps (starting in the winter of 1955) be given work on the Sinai project meanwhile. It seems therefore that UNRWA will have to maintain at least 75,000 of the Gaza refugees, for whom there is no prospect of settlement in the period 1955-60. The ideal course would be to move them to and maintain them in Iraq where they would eventually be absorbed.

Machinery

54. It is frequently stated that very few refugees will respond to an offer of repatriation. The probability is that no more will apply than Israel can be expected to absorb. The following considerations, which will become apparent in the course of application, may help to deter them:-

- (a) Those repatriated will become Israeli citizens,
- (b) Refugees will not normally be able to return to their own homes,

/(c)

- (c) The cost of providing alternative homes and other costs of resettlement in Israel will be deducted from any cash compensation due to the individual refugee, including the £100 per family;
- (d) For practical reasons, where land is available in Israel, priority will be given to property owners from that same area. (Their entitlement to compensation will help to keep down rehabilitation costs).
- (e) For similar practical reasons, applicants will be accepted by categories e.g. only ex-farm owners will have an opportunity to apply for agricultural land, and so forth.
- (f) There will only be a limited number of jobs available in Israel, and repatriates who are not given land will take their chance on the employment market along-side Jews.

55. In setting up the machinery for repatriation, one must take account of Israel's probable objections to any large scale international organisation on her territory. It appears therefore that UNRWA's responsibilities should be:-

- (a) To publicise the quotas, and verify applications,
- (b) To propose appropriate candidates by categories to the Israel Government, and obtain their clearance on security grounds,
- (c) To transport the repatriates to agreed centres and hand them over to Israeli organisations,
- (d) To observe the Israelis' rehabilitation work in order to ensure that proper value is obtained for the Agency's expenditure: see below.

56. Israel's responsibilities would be:-

- (a) To receive and care for the repatriates in the same way as Jewish immigrants are dealt with. This might be done by the Absorption Department of the Jewish Agency, but with special officers for Arab affairs lent by the Minorities Department of the Ministry of the Interior.

/(b) To

- (b) To take such legal and other action as is necessary to establish refugee farmers on their property and to incorporate non-property owners into the Israeli community.

57. As part of the settlement, the Government of Israel would have to provide a suitable guarantee of the rights of returning refugees. It is suggested that this should follow closely the guarantee in the U.N. Resolution No.181(II) Part I, Chapter 2, of November 1947. This provides:-

- (a) Freedom of conscience and free exercise of worship,
- (b) No discrimination on grounds of race, religion, language or sex.
- (c) Equal protection under the laws.
- (d) No interference with or discrimination against religious or charitable bodies on grounds of religion or nationality.
- (e) Adequate education in the Arabic language and cultural traditions.

58. It does not appear practicable at this stage to work out further details, such as the form of declaration, including a declaration of intent to become a citizen of Israel, which a refugee should make at the appropriate time.

Financing

59. The figure of £128 million for compensation includes payment for all Arab property. It covers real properties, revenue from them, and loss of tenants' rights. Rights to moveable property have, in the foregoing proposals, been offset against Israeli counter-claims. If Israel pays the required £128 million, it is proposed that she should in turn receive payment for land required by repatriates under the immigration quotas and for the other costs of repatriation.

60. It is arguable that a better impression would be made on the Arabs if Israel went through the motions of making the necessary land available at her own cost. This however would involve such

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difficulties as to jeopardize the whole operation. It is not as though Israel could simply restore his property to each repatriate and deduct the aggregate of their claims from the compensation fund. Nor can we expect Israel to pay for repatriation as well as providing full compensation for the original homes lost. It is true that she could lay claim, by agreement, to the entitlement of each repatriate when it is finally assessed three years hence; but she would be gambling on the relation of his entitlement to the value of the property she provided, and the plan would probably also not be acceptable to the Arabs, who would not trust Israel to supply value for money i.e. the equivalent of the repatriate's original property. Finally she could offer to provide the requisite property for repatriates in return for the deduction of an arbitrary total figure from the compensation fund; but this would have an extremely bad effect on Arab opinion because the compensation available to individual claimants would be reduced to pay for the repatriation of those whose claims to compensation did not cover the cost of their resettlement in Israel.

61. It therefore seems better that UNRWA should bear the initial cost of the whole operation (land purchase plus installation costs), recouping itself as far as possible from such compensation as is found to be due to each repatriate when the final pay-out is made by the P.C.C. in two or three years. Where a repatriate originally had little or no land and therefore has a very small entitlement to compensation, there will be a loss which will fall upon UNRWA. Theoretically UNRWA could recover the whole cost of the operation from the compensation fund but this would involve the same injustice to individuals as described in the preceding paragraph. Nevertheless, provided the suggestion is adopted that only former landowners should be given land in Israel, it seems probable that UNRWA would recover a large proportion of its costs from the claims of the individuals repatriated.

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62. The net cost of repatriation can not be calculated with any degree of accuracy because of the many unknown factors e.g. whether the bulk of the would-be repatriates will have a sizeable claim to compensation; whether Israel can be brought to provide much land, as opposed to jobs; and what the value of land and cost of houses will be.

63. For the purposes of this study however the figure of £10 million is adopted, on the following basis. Assuming that a total of 150,000 refugees are repatriated, this represents roughly 30,000 families each of which might cost £100 to transport to Israel and support for the rehabilitation period (UNRWA's relief budget works out at £10 a head or £50 a family, a year) - giving a basic expenditure of £3 million. In addition, up to one third of the repatriates, 10,000 families, might cost £1,000 each to instal on a small holding - giving a further £10 million. But UNRWA would recover at least £100 per family from the compensation fund held by the P.C.C. even assuming that none of the 30,000 families had an entitlement to more than that amount of compensation for real property. On that basis the cost would be:-

Overall transport and subsistence	£3 million
Installation of farmers	10 "
	13 "
Less recovery from P.C.C. @ £100 per family	3 "
	<u>£10</u> "

But this will be reduced to the extent that UNRWA recovers further the cost of repatriating individuals from the excess of their compensation claims over £100 per family. As stated above, it is considered probable that UNRWA will recover a large proportion of the £10 million in this way. Whatever loss has to be borne by UNRWA under these proposals is considered inevitable if the operation is to be relieved, in the Arab mind, of the drawbacks attaching to Israel's payment of repatriation costs.

/RESETTLEMENT

SECRET

RE-SETTLEMENT

Prospects of Resettlement

64. The prospects for the resettlement of the refugees depend not so much on the efforts of UNRWA, or of any other international body, as upon the expansion of the general economy of the Middle East. It has been proved useless to try to create opportunities for employment in an economic vacuum.

65. The expansion of the Middle East economy can only come about through accelerated development. There is no lack of projects although not all would be commercially self-supporting. The pace of development has so far been slow, partly through lack of capital, partly through lack of administrative competence and partly through lack of will. (This lack of will stems partly from suspicion of Western motives and partly from native inertia). The shortage of capital has now been overcome in the oil producing countries and it should not be impossible to devise means, preferably through the existing organisation of the International Bank, to transfer some of this capital to the countries with no oil revenue. The lack of administrative competence is likely to remain the limiting factor, although this can to some extent be overcome by technical assistance and the use of consultants from the West. The lack of will may prove the most difficult obstacle to overcome, particularly in the countries where most of the refugees will probably have to be absorbed, namely Jordan and Syria. Assuming a political settlement however, the authorities in those countries should become less suspicious of Western efforts to help them.

66. Given a general expanding economy in the Middle East the one essential requirement for the re-settlement of the refugees is that Governments should give them complete freedom of movement to go and stay where work is. It is understood that the Arab League Governments are on the point of agreeing, after long discussions,

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that the "host" Governments should grant to refugees temporary travel documents valid for five years which would enable them to visit any other Arab League country on the same basis as a national of the issuing country. (Refugees established in Jordan are already Jordanian citizens and have the right, in theory, to a passport). But the proposed Arab League document would not permit the holder to reside and take permanent employment in the country visited. Such permission is nevertheless essential to our plans, and must be made an explicit condition of any settlement.

67. It is assumed that Syria could be brought to absorb all the refugees within its frontiers within five years. An early decision to withdraw UNRWA from Syria at the end of that period would accelerate the process.

Numbers to be resettled in the first five years

68. Predictions in this field are extremely risky but, if the pace of development can be accelerated it seems likely that existing opportunities for employment and self-employment, and projects (other than UNRWA projects) which are already near the blue-print stage, could within five years provide employment for some 250,000 people. This figure is made up as follows:

- (a) Spontaneous resettlement in all Middle East countries by refugees receiving (at the end of the third year) compensation of over £1,000. 110,000
- (b) Absorption into the Syrian economy of all the refugees now in that country not covered by (a). 70,000
- (c) Absorption by Iraq of a number of refugees equal to that absorbed in Syria. (This estimate of the intake in 1955-60 is perhaps inflated, in view of Iraq's probable administrative and political difficulties over land settlement). 70,000

6. In addition to the above, schemes directly financed and organised by UNRWA. should be able to provide a livelihood for a further 200,000 people, of whom 150,000 would be settled in the Jordan Valley and 50,000 in Sinai. It is hoped that these UNRWA. schemes would deliberately cover only peasants (not claimants to appreciable compensation) as a means of reducing the hard core of refugees. UNRWA. has certain minor schemes now in progress or in sight e.g. the "11 million dollar" programme in Jordan, the object of which is to create small enterprises. The numbers to be absorbed in these have however been included in (a) and (b) of the preceding paragraph. The Agency's vocational training programme, which should be accelerated rapidly in order to facilitate the dispersal of the younger refugees once compensation starts, cannot be regarded for present purposes as resettling a separate much less a specific number of people.

70. The minimum number of refugees to be repatriated into Israel if we ignore the Gaza proposal would be 75,000. In addition, the disposition of the Gaza Strip and of the refugees there (apart from those going to Sinai) either to Egypt or to Israel would account for at least a further 75,000. (We do not believe that either Israel or Egypt would in fact ever agree to take many more than 75,000 of the 200,000 refugees now in Gaza. If this is so, the greatest advantage will be obtained if Israel takes the Gaza Strip and 75,000 refugees, since 50,000 will anyway go to Sinai).

71. At this rate, therefore, some 600,000 refugees might be resettled in five years or rather more than half the 1960 total of one million (assuming a steady natural increase during the period).

72. Beyond 1960 it is dangerous to offer even rough figures. It may be expected however that the economy of the Middle East, and Iraq in particular, will be expanding under the proposed stimulus at a rate which may enable all the rest of the refugees to be absorbed by 1970. Moreover the political atmosphere may have improved to the point where assisted emigration schemes (e.g. to Iraq) are feasible, to speed up the process of dispersal and resettlement.

73. We have not taken account of the possibility of resettling Palestine refugees outside the area, e.g. in the Sudan or even an under-developed area of South America such as eastern Bolivia, where there are many Syrian and Lebanese traders.

Future of UNRWA

74. Although UNRWA might withdraw from Syria at the end of five years it does not seem possible for the agency to withdraw from the other countries for at least ten years. Lebanon is unlikely to agree to absorb more than a few refugees - unless it could be demonstrated that an appreciable number of those already in the country are Christians who could be accepted, with a similar number of Moslems, without upsetting the confessional balance. Jordan cannot absorb more than half the 500,000 refugees now within her frontiers; and it cannot be expected that the movement of the remainder to employment in Syria or Iraq would exceed say 100,000 until the second five-year period. Moreover the proposals for distribution of compensation imply that refugees should have a right to stay in their camps until they find employment elsewhere, with the probable exception of those receiving more than £1,000 compensation. The latter will not be paid out for three years.

75. It must therefore be assumed that UNRWA's relief operations will continue much on the present basis for the next five years in Syria and for the next ten years in the remaining countries, although the numbers under its care will be gradually reduced as refugees find employment and accept their share of compensation.

76. There appears to be no room for administrative measures to make UNRWA's \$27-per-head-per-annum relief less attractive, and so to increase the impetus to dispersal given by compensation and by particular and general economic measures. It might be possible to reduce the financial burden on the United States and United Kingdom by substituting gifts of commodities to the Agency instead of cash, but it is more likely that such a course would render the Agency's task extremely difficult if not impossible, and that it would reduce even below the current level the cash contributions by other
/Governments.

Governments. Nevertheless the gradual reduction of the ration rolls should be maintained at its maximum speed by the regular and thorough checking of cards, which the local Governments must not be allowed to impede. Those refugees who accept compensation should certainly be removed from the ration rolls.

77. If the foregoing estimates prove correct, the relief costs of UNRWA will be halved by about 1960.

PALESTINE SETTLEMENT

MEETING HELD IN THE FOREIGN OFFICE ON
MONDAY, MARCH 7, 1955 at 11 a.m.

<u>United Kingdom</u>	<u>United States</u>
Mr. Shuckburgh	Mr. Russell
Mr. Simpson	Mr. Wilson
Mr. Belgrave	Mr. Burdett
Mr. Arthur	Mr. Mak

COST OF A PALESTINE SETTLEMENT TO HER MAJESTY'S
GOVERNMENT AND THE UNITED STATES GOVERNMENT

A. Compensation for Arab Refugee Property

It was agreed that:-

- (a) Israel would have to pay at least £100 million compensation for abandoned Arab refugee property: it was very unlikely that a comprehensive settlement of the Palestine affair could be purchased for less than that;
- (b) the sum would be made available over ten years;
- (c) the Government of Israel should be expected to raise £30 million of the required total. Of this £30 million it was envisaged that £10 million would be a direct contribution from the Israeli budget and that £20 million would be obtained by a loan from the international Jewish community to Israel;
- (d) in view of their regular contributions to Israel, American Jewry could probably not be expected to subscribe more than £5 million in compensation bonds. This would leave £15 million to be raised from Commonwealth Jewry; and permission would have to be sought for Israeli access to money markets in London and other Commonwealth countries;
- (e) no significant contribution could be expected from any other quarter: the remaining sum (£70 million) would have to be lent to Israel by Her Majesty's Government and the United States Government.

2. The meeting then discussed the division of this burden between the two Governments.

3. Mr. Russell emphasised that he could make no commitments on this matter. Subject to this, he could say that the United States Government would hope for a division in which they did not have to advance more than half (i.e. £50 million) of the required total, and in which Her Majesty's Government would contribute in addition one third of whatever sum was advanced by the United States Government. This would mean a division on the following lines:-

Israel	£10 m.
U.S. and Commonwealth Jewry	£20 m.
U.S. Government	£50 m.
H.M. Government	£16 2/3 m.
* Others	£3 1/3 m.
Total	£100 m.

/* It was

- * It was suggested that France might make a small contribution if she participated in a settlement; and that funds might be raised in certain other countries, for example Argentina.

4. Mr. Shuckburgh said that he too could make no commitments. It could not even be assumed that the Israeli Government would be allowed access to the London market. Issues of bonds in the other Commonwealth countries would require the separate permission of their Governments; but the citizens of some Commonwealth countries, including South Africa, would have the automatic right to buy bonds in London. It should be remembered that contributions from Commonwealth Jewry would for the most part be a drain on the sterling area; and it might therefore be necessary to consider the contributions of Her Majesty's Government and Commonwealth Jewry together. He agreed however that the Israeli Government would not be able to raise the necessary funds without access to the London market. As regards Her Majesty's Government's share of the £70 million which would have to be found in addition to the sum contributed by Israel and world Jewry, he had been thinking in terms of proportions similar to those in which Her Majesty's Government normally contributed to UNRWA funds, that is round about 18-20% of the £70 million.

5. It was agreed that both sides should examine the above ideas further with their respective financial authorities.

B. General Development of the Middle Eastern Area

6. Mr. Shuckburgh said that since resettlement of the refugees was largely dependent on the development of the economy of the area as a whole, we should do all we could to encourage the International Bank to be more active in the area. The reason for their inactivity so far had been lack of requests for loans for suitable projects, not lack of capital. It at any time it appeared that additional capital would make it easier for the Bank to make loans, we would not stand in the way of their raising money from those oil-rich states with whom we had special relations. In view, however, of those states' membership of the sterling area, the method to be followed would have to be agreed in advance with Her Majesty's Government, before any public statement or direct approach was made.

7. Mr. Purdett said that the International Bank was interested in the High Aswan Dam and was studying the Litani development project in the Lebanon. In both cases the Bank's interest should be encouraged.

8. Mr. Russell recalled that there was a possibility that the United States would agree to make up the difference between the total foreign currency cost of the High Aswan Dam and the amount which the International Bank might loan to Egypt for this purpose.

9. Mr. Shuckburgh said that Her Majesty's Government were negotiating additional sterling releases with the Egyptians. These would help Egyptian development projects.

TOP SECRET

Copy No. 10.....

APPENDIX 2

AGREED PAPER

PALESTINE REFUGEES

COMPENSATION, REPATRIATION AND RESETTLEMENT

to Agreed Paper dated 7th April 1945

COMPENSATION

Magnitude

The net amount payable to the refugees must be to some extent determined by Arab and Jewish claims and counter-claims but the Western Powers should have a target in mind.

2. Incontestably the Arab refugees should receive compensation for their immovable property, of which the closest known assessment is £100 million. In addition they will have an arguable claim to compensation for: loss of use and rents on that property; the difference between its tenanted value (i.e. the £100 million) and its vacant possession value - in other terms, compensation for loss of tenants' rights; and loss of movable property, which is less easily calculable but still falls under the United Nations Resolution of 1948. The Arabs also claim, less justifiably, compensation for their share of Palestine Government property and for their loss of private prospects.

3. Israel, however, will claim for: abandoned Jewish property formerly in Palestine, now in Jordan; war damage to Jewish property in Israel; and Jewish property sequestered in the territory of other combatant Arab states, notably Iraq. They also claim, with less relevance, compensation for property sequestered in non-combatant states, e.g. Morocco. Both Arabs and Jews may claim blood money for casualties during the Palestine conflict.

4. With all these factors to consider, and all except the immovable property in former Palestine being of debatable value or relevance, it would be useless to try to negotiate first with the Arabs on a figure they would accept and which it would be reasonable for the Western Powers to finance. The first step should therefore be to negotiate with Israel a net figure which the Western Powers believe would be acceptable to the Arabs.

5. The joint working party consider that every effort should be made to settle for £100 million, the value placed on the refugees' immovable property by the P.C.C. It is well supported by the available evidence; it is the least the Arabs are likely to accept; and it has the virtue of meeting the refugees' claim to compensation for immovable property, without their suffering reductions on account of unrelated counter-claims. The object of the negotiations with Israel, and later with the Arabs, would be to cancel out all other claims on both sides: including Israeli claims in respect of immovable property. The value of any Arab land returned by Israel (e.g. along the frontier with Jordan), would of course be deducted from the total value of

/compensation

compensation as calculated above and the value of the Arab land obtained by Israel at Latrun would be added. But the division of the demilitarised zones would not affect the foregoing compensation; they would be dealt with as a separate issue, created by the present settlement.

Financing

6. Assuming \$100 million to be the target, the maximum contribution towards it should be made by Israel; in effect by the Government of Israel and its main source of foreign exchange, world Jewry. The provision of a substantial Jewish contribution will be facilitated to the extent that payment is required over a long rather than a short period; and it appears likely, in fact, that the required payments will be spread over as much as ten years because:-

- (a) the assessment of individual claims will take about three years;
- (b) thereafter, the physical distribution will be a gradual process if only by reason of disputes;
- (c) the area's lack of economic wealth, apart from that to be created over a period of years by UNRWA or I.B.R.D. projects, will make it extremely difficult to invest the total of \$100 million in less than perhaps ten years. Because of their interest in preventing inflation, the Western Powers may have to consider means of slowing down the payments.

7. If the payments were in fact spread over ten years, it should be possible for the Israelis to provide 30% of the capital with the assistance of international Jewry, which might provide say 20%. The principle would be that Israel was responsible for the payments to the refugees and for payment of interest and amortisation of both Jewish and Government loans; albeit the latter might have to bear lower interest and be for longer terms, dependent on Israel's capacity to service them.

Distribution

8. While full and final settlement of each refugee's claim, including appeals to arbitration, would be impossible, the aim should be a quasi-legal distribution of the \$100 million according to entitlement, in order to obtain the best political reaction from the refugees and the Arab world.

9. Details of distribution procedure can hardly be laid down without prior discussion with UNRWA, since compensation has an economic (resettlement) aspect as well as a political one. Nevertheless certain interests of the Western Powers are clear, and the following modifications are proposed to the principle of payment according to entitlement:-

- (a) Any refugee's claim to compensation should be abated by the value of real property or equipment made over to him by UNRWA if he is resettled or repatriated.

/(b) About

- (b) About £35 million is due to some 11,000 claimants over and above £2,000 each. The rich have equal rights with the poor to eventual payment of their entitlement, but it is important that this capital should create employment in the area, as the property it represents used to do in Palestine. It is proposed therefore that priority in payment, within this class, should be given to those who are prepared to show that they will invest their funds usefully within the Middle East. The method but not the principle of so distributing this money should be discussed with the Arab Governments in so far as it affects the economy of the countries concerned.

Further consideration should be given to the proposal by the London working party that entitlements of this magnitude should be invested in a development bank with refugee representation on its Board.

- (c) There would be distinct political advantage in being able to announce at the outset that every refugee would get some direct benefit from the Israeli's payment of compensation. With this in mind, it is proposed that the value of common (masha') land, which would in any case be almost impossible to divide among the legal owners, should be shared by all claimants to small amounts (perhaps those with claims under \$100, which would mean some 70,000 persons). The London working party's suggestion of a minimum payment of \$100 per family-unit would involve statement of all claims to higher amounts if the total fund were only \$100 million. It should however be further examined in the course of negotiations.

10. In general it is assumed that UNRWA will continue to remove from its ration rolls any claimant found to be self-sufficient. Further, while no claimant should be denied the ultimate right to cash payment, any devices to facilitate payment in kind would be beneficial.

11. The agents in the operation (after the Western Powers have negotiated the proposed settlement), should be as follows:-

- (a) For the purpose of assessing individual claims, receiving funds from Israel and dispersing compensation through UNRWA, a special United Nations agency might be set up by the General Assembly at the request of the P.C.C.
- (b) UNRWA, however, should handle all contacts with the refugees, e.g. for identification and for the cash payments as indicated above. It is not excluded that a local government should take over UNRWA's function and full responsibility, in order to facilitate the agency's withdrawal from the country.

/REPATRIATION

REPATRIATION

12. It is considered that Israel, with a view to reconciling Arab claims to a general right of repatriation, and her own inability to take more than limited numbers, should offer to repatriate 75,000 Arab refugees over a five years period. This could be accomplished by establishing immigration quotas of 15,000 each for five successive years. The quotas would be non-renewable but measures would be taken to ensure that Israel did not impose administrative restrictions which would prevent the quotas being filled. It is unlikely that these quotas will in fact be filled, nor would it be good sense to persuade any considerable number of Arab refugees to settle in Israel except for persons from the Gaza strip for whom prospects of resettlement elsewhere are especially dim.

13. The land which the Arabs formerly occupied would have been paid for by Israel with the \$100 million compensation. If Israel provided returning refugees with some of the very limited part of such land which has not meanwhile been colonised, this would give the greatest satisfaction to a very few of the would-be repatriates - particularly if the former owners could return to it. But the Government of Israel would certainly wish to deduct its value from the compensation fund, to the detriment of the refugees in general. Moreover, Israel is most unlikely to give the Arab refugees the actual title to any land whatever. In fact, one can expect them to be treated no better than Jewish immigrants, i.e. to be given, at the most, a limited tenancy of land.

14. On balance the most satisfactory course appears to be the following:

- (a) pay compensation, subject to (c) below, to repatriated refugees when they are entitled to it, in the same manner as is done to other refugees (they would in fact have little prospect of returning to their homes as provided for in the UN Resolution of 1948 and therefore appear entitled to compensation);
- (b) include a provision in the applications for repatriation barring refugees from raising subsequently in Israel courts claims for further compensation for their property;
- (c) UNRWA to pay the cost of repatriation and to recover the amount spent on each individual family of repatriates as far as possible from that family's compensation entitlement.
- (d) Israel to treat the refugees as new immigrants.

The above procedure would avoid insistence by Israel that the compensation total agreed to with her be reduced by the value of the property of refugees returning to Israel, and would avoid difficulties with Israel over where the refugees should be settled.

15. The whole operation would be completely different from the Arabs' concept of repatriation (which could be described as the re-occupation of Arab Palestine), but it is considered possible

/to present

to present the matter in such a way that the Arab Governments would admit that the United Nations Resolution about repatriation had been fulfilled.

RESULTS IN TERMS OF RESETTLEMENT

16. The joint working party have no sufficient basis for a definite forecast of results in terms of resettlement. It is considered that substantial progress in this field is impossible unless:-

- (a) all available measures are taken to accelerate the general economic development of the Arab states by means of foreign capital and technical assistance; and
- (b) the Arab Governments permit the free movement and residence and employment of the refugees throughout the region.

17. For the purpose of making a working estimate of results over a five-year period it is assumed, however, that UNRWA will soon be able to withdraw from Syria (now harbouring 80,000 refugees); that the Lebanon, having some 20,000 Christian refugees, can absorb them and an equal number of Moslems without upsetting the confessional balance; that some 60,000 will immigrate to Iraq, particularly if frozen Jewish assets in Iraq are used to help them; that 270,000 will be absorbed in the Jordan Valley and Sinai projects; that say 50,000 will be repatriated to Israel; and that say 130,000 may be removed from the UNRWA rolls by stricter vetting of ration cards:-

Syria	80,000
Lebanon	40,000
Iraq	60,000
Jordan Valley	200,000
Sinai	70,000
Israel	50,000
Deflation of UNRWA rolls	130,000
	630,000

18. If the above projection, which is very optimistic, works out in practice about 250,000 refugees might remain on UNRWA rolls after five years: located mainly in Jordan and the Gaza strip (or in camps in Sinai distinct from the Sinai project). UNRWA will probably be called upon to support these persons for an additional five to ten years. Jordan would be financially incapable of doing so, and if Egypt annexes the Gaza strip she would probably have to be given assurances that UNRWA will pay for the care of the refugees until they are permanently settled. These persons might eventually be resettled in Iraq, elsewhere in the Moslem world in small numbers (perhaps in Libya and the Sudan) or possibly outside the area.

/19. The

19. The refugees in the Gaza strip will pose a special problem (see Appendix 1 for territorial settlement envisaged). In the most favourable circumstances 70,000 would be resettled by the Sinai project and perhaps 50,000 would return to Israel leaving some 80,000 for whom there is little prospect of resettlement in the foreseeable future. If left in the Gaza strip they would be a constant source of friction between Egypt and Israel. Therefore Egypt should be asked to permit removal of the remaining refugees to new camps to be located in Sinai. UNRWA would pay for the move and agree to support the refugees until they could be permanently resettled. If Egypt refused to admit the refugees into Egypt proper the situation would be accepted reluctantly, and UNRWA would still agree to support them until they are permanently resettled. If Nasser refused to accept the Gaza strip with the refugees some form of trusteeship, as discussed in the territorial appendix, would be considered. We should not neglect any means of creating additional permanent employment in Gaza; but, because of the difficulties in finding resettlement opportunities for them, and the dangers of frontier incidents posed by the overcrowded Gaza strip, refugees from this area would receive priority for repatriation to Israel and for resettlement in any new projects which may be devised.

13
TOP SECRET

ALPHA

EXTRACT FROM AGREED PAPER DATED MARCH 9

REFUGEES

1. To prove acceptable to the Arabs the proposals must contain provision for repatriation of Arab refugees and the payment of compensation. In practice only a small number of refugees probably wish to return to Israel and in general it would not be desirable to increase too greatly Israel's Arab population.
2. Israel would be asked to repatriate as Israel citizens up to 75,000 refugees over a five-year period. This could be done through a non-renewable quota system providing for the admittance of 15,000 yearly with priority given to refugees from the Gaza strip. Persons readmitted would be settled by the Government of Israel in the same manner as new Jewish immigrants and UNRWA would provide financial assistance to this end.
3. The eventual resettlement of all refugees depends upon the general economic development of the area as well as upon specific UNRWA projects and freedom of the refugees to move in order to take employment. In the long run the best prospects are provided by the economic development programme under way in Iraq. A very rough forecast of resettlement possibilities is as follows: Syria, 80,000; Lebanon, 40,000; Iraq, 60,000 (initial increment Jordan Valley including the Unified Development Plan, 200,000; Sinai Project, 70,000; Israel, 50,000 (it is very doubtful that the full 75,000 would want to return); total, 500,000.
4. Compensation.
 - a. Both the Arabs and Israel will advance large claims and counter-claims which will prove almost impossible to evaluate. These will include: on the part of Israel claims for abandoned Jewish property in Jordan, war damage and Jewish property sequestered in the Arab states on the part of the Arabs, movable property, tenant's rights and loss of use and rents on property. The most

/practical

8

practical approach is first to negotiate with Israel a fixed figure which will represent the net amount to be paid by Israel for compensation after all claims and counter-claims have been taken into account. The suggested figure is £100,000,000. This is the PCC estimate which is understood to be conservative, of Arab immovable property abandoned in areas of Palestine now held by Israel.

- b. It is important for psychological reasons with respect to the Arabs as well as to minimize the financial burden on the US and UK that Israel contributions to compensation be as large as possible but it recognized that unassisted she is unable to finance such a large sum. In view of the time which will be consumed in determining individual claims, the difficulty of providing funds and the low economic absorptive capacity of the area payments should be made over a ten-year period. Of the total Israel and world Jewry combined should pay 30 per cent and 70 per cent would have to be provided by the world community, primarily the US and UK, in the form of loans to Israel. Israel should accept responsibility for repayment and servicing of the loans.
- c. The funds available for compensation should be distributed through a quasi-judicial process to persons who are able to establish title to real property. Persons otherwise entitled to compensation would be paid even though repatriated to Israel. To avoid double payment any claims would be reduced by the value of real property or equipment provided to a resettled refugee by UNRWA. Large claimants, estimated at 11,000, should be paid on a deferred basis to reduce dangers of inflation and provisions should be made to encourage maximum investment

/of

9

of the funds in the area. All refugees should receive some payment. This could perhaps be done by dividing the value of common land, to which title is difficult to determine, among refugees with no claims and those with very small claims.

- d. A special UN agency should be established to administer the programme: UNRWA would make the actual payments.
- e. The value of Arab lands returned by Israel to Jordan in the frontier adjustments would be deducted from the compensation total, while the value of land acquired by Israel at Latrun would be added. Payments for property in the demilitarized zones on the Syrian border would be handled separately.
- f. Appendix 2 describes in detail the suggested compensation, repatriation and resettlement programmes.

TOP SECRET

W.A.K. Potter

10

Further papers about the
Arab-Isreal business.

A + B are spares, for you;
C is the only Treasury
copy

Report of London Working Party dated 24th Feb 1955

Extract from Agreed Paper dated 9th Mar. 1955

Minute of meeting held in Fo on 7th Mar. 1955

Various papers and their status
First To Cabinet paper
Para 7(c) Oil?

Developments since ^{To} First Cabinet paper

Nature and timing of further To Cabinet paper.

"Without Commitment" ideas produced in Anglo-American discussion.

Israeli compensation for Arab refugee property

Inducements to Egypt

Inducements to other Arab states.

Speeding up of UN World scheme.

UNRWA borrowing from oil rich states.

Israel's ability to pay.

Money committed or expected.

Uman 80

Soviet 44

Jordan 112

Iran 20

Arab States 250

Total

Additional for

Lebanon & Syria 200

Egypt & Jordan 100

Jordan Lebanon

& Syria

Total to be 250

Arab States

1087

TOP SECRET 12

7/4/58

SIR LESLIE ROWAN

cc: Sir A. Johnston
Mr. Drake
Mr. Potter

Palestine Settlement - C(55)96

This paper sets out the dangers of war in the Middle East arising from the non-settlement of the dispute between Israel and the Arab States, and outlines the plans which the Foreign Office have been making with the American State Department for trying to reach a settlement.

The object is, of course, entirely laudable, but the way in which the serious financial implications for us have been handled is most unsatisfactory.

At the end of February Mr. Shuckburgh, at a meeting with Sir Alexander Johnston and Mr. Playfair, gave us an outline of the plan. We explained the serious difficulties which the financial proposals would have for us and Mr. Shuckburgh agreed that further discussion with the Americans would be entirely without commitment, pending further discussion with us. In spite of reminders, we had nothing from the Foreign Office until yesterday morning when Sir Alexander Johnston received a draft of this paper with a message that the Foreign Secretary wanted to circulate urgently. He called a meeting, which I attended yesterday afternoon, but by that time the paper was already in process of circulation.

The first point to which we drew attention was the phrase in paragraph 6: "These discussions..... have resulted in agreement upon a comprehensive set of proposals for a settlement of the Palestine question". It seemed to us that the plain meaning of these words must be that H.M.G. was committed vis-à-vis the U.S. Government to proposals on these lines with their financial implications. Mr. Shuckburgh maintained that the discussions had throughout been entirely without commitment to either Government. He admitted that the words quoted above were

/misleading;

misleading; it was, however, too late to alter them.

Moreover, however much he and his American opposite number may have reserved the position of their Governments, it must be recognised that the mere drawing up of this plan has gone a long way to getting them morally and practically committed to it.

The financial implications are sketched out in paragraph 8 of the paper. They can be divided as follows:-

- (a) Speeding up of U.N.R.W.A. schemes. This, which is primarily an I.F. matter, raised no new question of policy.
- (b) Inducements to Egypt and other Arab States. As regards Egypt, Mr. Shuckburgh told us that it is likely to take the form of assistance towards their development schemes, in particular the High Aswan Dam project. The Americans with whom he had discussed it talked of making a grant of \$200 million towards this project (estimated to cost \$600 million) on the basis that a further \$100 million would be contributed by I.B.R.D. Mr. Shuckburgh said that there had been no suggestion that the U.K. should give or lend money to Egypt, our contribution being regarded as taking the form of additional releases of Egyptian sterling. These ideas are quite different from those which the Egyptians have been discussing with the German/British/French consortium for the building of the Dam, under which additional sterling balances released by us would be used to meet the foreign currency expenditure on the project. The cost of the Dam is so great and Egypt's resources are so strained that she probably will in fact need not only her own sterling balances, but also assistance from the Americans and the International Bank. But, whereas under the plans we have been discussing Egypt would award the contract to the consortium and our contractors would get a substantial share of the orders,

/under

under these present ideas, the Americans may well insist on American participation in the project or at any rate international tendering.

There has been no co-ordination within the Foreign Office on this subject. Whereas Mr. Shuckburgh would like us to go slow on the negotiations for the release of Egyptian sterling, his colleagues who have actually been handling this suggestion have been pressing us to go ahead as quickly as possible. All this side of it we will endeavour to clear up in the Foreign Office next week.

We asked what inducements to other Arab States were in mind. Mr. Shuckburgh said that this reference had been put in the paper because of the possibility that, as negotiations proceeded, it might prove necessary to bribe e.g. the Syrian Government to take some Arab refugees. There was no suggestion at the moment that H.M.G. would have to contribute, but it was a possibility. This illustrates how commitments which may turn out to be inescapable arise when one embarks on a project of this kind.

- (c) Compensation for Arab Refugee Property. It is an essential part of the scheme that the Government of Israel should pay compensation estimated at about £100 million to the Arab refugees whose property in Israel has been confiscated. It is recognised that Israel cannot in fact produce anything like this amount. The ideas produced in the Anglo-American discussions were described to us as follows:-

	<u>£ million</u>
(i) Loan or gift by U.S. Government to the Government of Israel	50
(ii) Contribution by the Government of Israel itself	10
(iii) Sums raised from Jews in U.S. and Commonwealth	20
(iv) Loan from H.M.G.	<u>15</u>
Total:	95

Mr. Bramley, at a Standing Release meeting in Mr. Turnbull's room yesterday, expressed the view that the question of Release should be pursued in depth during the question of Arab-Israeli settlement.
24/10/55

These ideas are still very fluid and they are not at all clearly expressed in paragraph 8, where in addition to the \$15 million loan from H.M.G., reference is made to borrowing by the Government of Israel on the London Market of \$10-\$15 million. This is apparently intended to be a reference to (iii) in the table above. On the advice of the Bank of England, I told Mr. Shuckburgh that, quite apart from the policy difficulties vis-à-vis Commonwealth borrowers, etc., he must take it that it would not be possible for the Government of Israel successfully to float such a loan on the London Market and that it was useless to regard this as a future plan. The alternative would be to allow the Government of Israel to sell in this country, and in any other Commonwealth countries that were willing, their bonds on the lines on which they are now sold in the United States, Canada and certain European countries. I said that this might raise fewer difficulties for us provided the bonds were non-negotiable, but that we should have to have time to consider it, and meanwhile we could not be regarded as committed to it.

The \$15 million loan from H.M.G. is primarily a matter for I.F. Sir Alexander Johnston pointed out the budgetary difficulties and I stressed the balance of payments difficulties at the present time.

Apart from all this the implications of the sudden influx into the Middle East of \$100 million are obviously most serious. The money will be doled out in relatively small amounts and will produce inflationary conditions without any direct impetus to our own exports there. The Foreign Office are alive to these dangers but at the moment have no ideas about how to meet them.

Timing

Mr. Shuckburgh told us that earlier this week it was

/expected

expected that negotiations on this would be opened up with Egypt very quickly, and in fact preliminary soundings had been taken of the Egyptian Prime Minister by the American Ambassador in Cairo. These had been reasonably successful but it was now clear that no further progress could be made until the Egyptian Prime Minister returns from the Afro/Asian Conference at Bandoeng at the end of April. It was agreed that immediately after Easter we should sit down with the Foreign Office in order to work over the points outlined ~~XXXX~~ above, and that as a result a further paper or papers might be circulated to the Cabinet by the Foreign Secretary and possibly by the Chancellor. This is all very well but

- (a) meanwhile the Cabinet are left with the misleading impressions contained in the Foreign Secretary's paper, to which I have already referred;
- (b) it must be recognised that the Foreign Office have gone a long way to being morally, emotionally and practically committed to a plan on these lines.

(W. ARMSTRONG)
7th April, 1955.

- 14
1. Budgetary difficulty
 2. B.S.P. difficulty
 3. London Market out (Eddy/gov)
 4. Anything to be said about peddling bonds
 5. Inflationary consequences in M/East.
 6. Anything to be said about High Dam or releases to Egypt.
 7. IBRD borrowing from oil-rich states

(a) - policy - Commonwealth first

(b) practicality

Drake

15

Note of a meeting held in Mr. Drake's Room on the 14th April
to discuss the financial implications of C.(55) 96

PRESENT

Mr. A.E. Drake	Treasury
Mr. A.K. Potter	"
Colonel Russell Edmunds	"
Mr. H.S. Lambert	"
Mr. G.G. Arthur	Foreign Office
Mr. K.J. Simpson	"
Mr. R. Belgrave	"

1. The Foreign Office explained that the Working Party report was entirely a United Kingdom paper. The Agreed Papers were joint U.S./U.K. views which were official views only and were entirely without commitment.

2. In answer to Mr. Potter, Mr. Arthur said that it was not correct to say the Cabinet Paper put in by the Foreign Secretary was out of date. Soundings had been made separately of Colonel Nasser by the U.S. Ambassador to Egypt and the U.K. Ambassador. In the course of these soundings, Colonel Nasser had laid claim to the Negev and had proposed that a scheme should be worked out to this end. He (Colonel Nasser) would consider the scheme when he returned from Bandoeng. It would be necessary for the Foreign Office to discuss this development with the Americans and present thoughts were that the Americans should be asked to come back to London next week. Then there was the uncertainty about a General Election. If there was one, then the question of further talks with the Egyptians would have to be put off. If no General Election, it might be necessary to seek the Cabinet's authority to go ahead with the proposal for a settlement.

3. Mr. Potter said there was a reference to oil in the context of Israel. Was it contemplated that the pipe line to Haifa would be opened? Mr. Arthur said this was not contemplated. Iraq would not be a party to the settlement and there would be no attempt to make the supply of oil to Israel an issue. All that was in mind was the removal of certain measures by Arab Countries, e.g., supplies for Israel through the Suez Canal; there was no question of trying to get the Arab Countries to engage in trade with Israel. The removal of the Suez Canal restriction on supplies for Israel would help Israel balance of payments wise and this was thought to benefit ~~on~~ oil imports ^{by} ~~of~~ about £1 million annually.

4. Mr. Drake raised the question of the guarantees which would be given as part of the settlement. Did the Foreign Office envisage that this would affect the Anglo-Jordan Treaty or our undertaking to Israel? Would these guarantees have any bearing for example, on the strength etc. of the Arab Legion? Would they in any way have a bearing on H.M.G.'s general strategic aims in the Middle East. Mr. Arthur said these guarantees would not affect the Anglo-Jordan Treaty or any other undertaking of H.M.G. As far as he knew they would not have any bearing on H.M.G.'s strategic aims in the area. The one decided benefit of these guarantees was that the Americans would be a party and this was very valuable.

5. Mr. Drake wondered if the proposal for dealing with Jerusalem would have financial implications. There were two Municipalities concerned, the Arab and Israeli municipalities: there may also be private claimants. He knew from experience that a number of Arab municipalities considered they had claims on the Israel Government for municipal funds: and in the case of Jerusalem there had been difficulties about apportioning a Water Supplies Renewals Fund between the Arab and Ismaili municipalities. Mr. Arthur said he was unaware of financial implications: nothing had been mentioned in the discussions with the Americans. Mr. Drake said there did appear to be some risk of financial implications and he thought that Ministers should be aware of the risk.

6. On the question of Egypt, Mr. Arthur emphasised that in the talks with the Americans there had been no suggestion that H.M.G. would provide any economic aid. The Americans had clearly given the impression that they would help with the High Aswan Dam project. They had talked of making a grant of \$200 million in addition to \$100 million from I.B.R.D. When fears were voiced about reliance on the Americans to provide the required economic aid without any likelihood of a call on H.M.G., Mr. Arthur explained that, by chance, he had in the course of talks, come across a U.S. State Department paper which purported to indicate some planning thoughts of the State Department on U.S. aid to the Middle East over the next five years. The figures ran:-

	£ million
U.N.R.W.A.	80
Sinai	44
Jordan Valley	112
Economic Aid	250
Additional aid to Israel	200
Additional economic aid to Egypt, Jordan, Lebanon and Syria	145
Military Aid	250
	<hr/>
	\$1,081 million
	<hr/>

The American representative on the Working Party were confident that they would get the assistance required for Egypt. He (Mr. Arthur) was convinced that the Americans were not looking to H.M.G. to provide assistance. H.M.G.'s responsibility would be confined to the question of release of sterling balances. This latter point occasioned some discussion from which emerged that the Foreign Office accepted the view that the question of releases should not be tied-in with a Palestine Settlement. If it happened that a decision on releases was conveyed before negotiations on a Palestine Settlement were under way, then credit would be claimed for this decision as a gesture to Egypt.

7. On the question of assistance to other Arab countries, Mr. Arthur said there had been no suggestion that H.M.G. should make any financial contribution. Mr. Drake said there may not be any idea on the Foreign Office part to provide financial assistance for Arab countries. But in the case of Jordan there may well be increased pressure on H.M.G. to increase her contribution for development. This possibility could not be ignored and Ministers should know of it. As to whether H.M.G. would get away without making some financial contribution in the course of negotiations was a moot point.

8. Discussion then turned on the question of Compensation. It was generally agreed that a settlement was unworkable without some compensation. In the view of the Foreign Office, the minimum figure which could be thought of as standing a chance in obtaining a settlement was £100 million. Mr. Drake pointed out that for presentation to the Cabinet, the figure should be posed as the maximum for purposes of negotiation. Just how the negotiations should be conducted in order to ensure that they were contained within a maximum of £100 million needed the most careful thought. The Foreign Office considered that the first approach should be made to Israel where there would be every effort to scale down the amount of compensation. The Arab countries on the other hand would start from astronomical levels no doubt. Mr. Arthur said that the method of conducting the negotiations had not been fully thought out. It was an essential starting point to know that the Israel Government would play and on what terms. He envisaged the first stages would be to get Israel agreement in principle to the basic framework of a settlement e.g., territorial adjustment, repatriation, compensation etc.; then the Arab countries agreement in principle. The stage might well be reached where, on compensation, there would be a firm declaration that £100 million was the limit.

9. There was much questioning of the £100 million compensation figure. The Foreign Office agreed that ideas about what this figure ~~should be~~ ranged widely. However, the Palestine Conciliation Commission had, in 1951, carried out an exercise on the question of compensation and from this had emerged a figure of £100 million. This was an independent study of the problem and could be posed accordingly as a reasonable assessment by a responsible authority. The Treasury pointed out that the assessment made in 1951 was based on 1947 values and it might be reasonably contended that in 1955 an upward adjustment was called for. The Foreign Office agreed that an up-to-date assessment might entail an upward adjustment, but in their view this figure of £100 million was not the crucial factor in a settlement as proposed. There were a number of vital issues involved in the proposed settlement and negotiations might well founder on one or more issues other than the compensation figure. In framing the proposals, the Foreign Office had decided that a figure of £100 million was the one which should be stuck to for compensation and the Americans did not demur. Mr. Drake said he appreciated the underlying aim of the Foreign Office, but there was the risk that in negotiations this figure of £100 million might be adjusted upwards. If this happened, it would mean that the additional sum would fall to be met by the U.S. and the U.K., and the U.K. share of £15 million might be doubled. Mr. Arthur said the Foreign Office view was that £100 million would be the amount the Cabinet would be asked to approve. If a higher figure became an issue, then it would mean going back to the Cabinet. Mr. Drake said if there was any danger of a subsequent approach to Cabinet for a higher figure than £100, then the Cabinet should be aware of this.

10. The Treasury pointed out that the Working Party report gave a figure of £128 million for compensation made up of: Compensation £100 million, Loss of rents and revenue £18 million, Tenants rights £10 million. The Cabinet Paper mentioned only £100 million. Mr. Simpson explained that the Americans did not like the idea of compensating for loss of rents and for Tenants rights because it would be most difficult to handle. It had been agreed in the U.S./U.K. official talks to drop both these items and stick to £100 as the compensation total.

11. On the repatriation proposal, Mr. Drake pointed out that this would be likely to involve U.N.R.W.A. in a loss and would be a call for additional funds for U.N.R.W.A. The Foreign Office explained that because of the United Nations resolution, it was essential to have the principle of repatriation accepted by the Israel Government and it was to cover this requirement that the proposal had been made that Israel should agree to repatriate Arabs in the numbers suggested. (75,000 from Gaza, 75,000 from elsewhere, over 10 years). But the Foreign Office were convinced that very few Arabs would take advantage of the repatriation terms and it was most unlikely that U.N.R.W.A. would incur much in the way of a loss. Mr. Drake agreed that it was unlikely that the repatriation terms would appeal to the Arabs, but to the extent that they did, U.N.R.W.A. would have to bear the loss.

12. The question of the inflationary effect of the compensation payments was discussed at some length. The Treasury expressed the view that this problem needed to be most carefully considered. Whereas the Working Party had shown some apprehension about the problem and had suggested the investment of compensation payments above £2,000 in a Development Bank, this idea seemed to have disappeared in talking with the Americans. The Foreign Office explained that the Americans had shown considerable reluctance to any suggestion that the individuals concerned would not be paid the compensation due to them. They attached great store to the private rights of individuals and considered nothing should be done to infringe such rights. They had, however, agreed to look further into the question of a Development Bank along the lines suggested. It was pointed out by the Treasury that as the proposals stood some two-thirds of the compensation would be paid in two years. This was bound to have strong inflationary results. If all payments were made to individuals, then it was essential that the payments should be spread out so that there was an even annual rate over the 10 year period. But the problem needed to be studied country by country and there would be an advantage in getting expert views from such people as Mr. ^{Davis.} ~~Diels~~ the Jordan Currency

Controller. The Foreign Office were against any soundings of local experts on security grounds. On the other hand, they accepted the vital need to avoid inflationary pressure and would welcome Treasury assistance in working out suitable arrangements for the compensation payments. The Treasury thought that something on the lines of the Development Bank idea for payments over £2,000 should be a feature of a scheme for compensation payments. The Foreign Office said they thought the Treasury should be represented at future talks with the Americans when they could handle this question of investing compensation payments and also other financial matters. There was general agreement that the Treasury would attend future talks with the Americans.

13. Some doubt was expressed by the Treasury as to Israel's ability to herself to find £10 million towards her share of the compensation payments. The Foreign Office explained that, in the discussions, with the Americans a number of attempts were made to evaluate the contribution Israel could make from her own resources. In the end, the Americans took the line that the least Israel should be allowed to get away with was £10 million and that, broadly, settled the amount. On the other hand, the Foreign Office had considered that the cash available to the Custodian of Absentee Property should be the major share of the £10 million; but it had been difficult to get an estimate as to what such funds might amount to. The Treasury made the point that any shortfall in the £10 million would throw an added share on the U.K. and U.S.

14. The Foreign Office said before an approach were made to Israel it was essential to know whether Israel could be given facilities to enable her to raise about £10/15 million from Commonwealth Jewry. The Treasury pointed out that they had said at the meeting which Sir Alexander Johnston held that it would not be possible for the Government of Israel to float successfully a loan on the London Market and that it was useless to regard this as a starter. As an alternative, it may be possible to allow the Government of Israel to sell in this country, and in other Commonwealth countries that were willing, these bonds on the lines they are now sold in the United States and some other countries. It would be necessary to obtain the views of the Bank of England on such a proposal and would

the Foreign Office be agreeable to the Bank being told what was necessary of proposals for a settlement in order to get the Bank's views. The Foreign Office representatives explained that the Americans were particularly concerned about security: they did not want to run any risk that news of the idea might leak and had confined knowledge of the proposals for a Palestine Settlement to a mere handful of Officials. It was agreed that the Foreign Office would consider whether the Bank of England could be told what was necessary of the proposals and would let the Treasury know.

15. Mr. Drake pointed out that the proposals envisaged the extension of the life of U.N.R.W.A. to 1965 and possibly 1970. While it was true that we had accepted that U.N.R.W.A.'s life should be extended long enough to complete its task - and this might be after 1960 - the proposals threw an added burden on the Agency. For example, a great deal of the administrative burden for payments would fall on U.N.R.W.A. and this would be a heavy one. It would mean a greatly increased staff and would be costly. Ministers should know of this. The reference to the administrative burden which the proposals threw up raised the question of the exercise now being conducted by the Palestine Conciliatory Commission into the Palestine Government Land and tax registers so that a basis for compensation payments could be framed. The Treasury pointed out the vital need to keep this exercise apart from the question of the compensation total: it would be embarrassing if this exercise was conducted in such a way as would call in question the £100 million figure. The Foreign Office answered that the exercise mentioned was estimated to take three years, but it might well take five. This answer raised the query as to what basis would be taken for compensation payments if the exercise was not concluded in three years, but it was clear that this needed to be thought out. It was agreed that it would be advisable to keep the P.C.C. exercise in leading strings so that it would not prove embarrassing.

16

16. The Treasury raised the question as to how the abatement of Israel's share for cession of territory by her would work. The Foreign Office said they envisaged that the territory ceded would enable claimants to receive back their property and, therefore, no compensation monies would be payable. In answer to another Treasury query, the Foreign Office said they had envisaged getting the Iraqi frozen assets (assets of Jews in Iraq) paid over in cash to the authority which would make the compensation payments. The Foreign Office had no idea as to the amount of these assets though they had made efforts to find this out. It was pointed out that the Iraqis were very anti-Jew and this may have a bearing on getting the money. The Foreign Office said they assumed that the money would be forthcoming and thought this would be so. As to property of Palestine Potash Ltd. and Palestine Electric Corporation, the Foreign Office said that while this question had been mentioned in the course of talks with the Americans, no decision had been reached. The Treasury pointed out that property of these companies were situated in Jordan and this may throw up an added problem for H.M.G. as would the question of surrender by Jordan of any claim to Palestine Government assets in Israel about which succeeding Jordanian Delegations had been vociferous.

17. Following discussion about putting a paper to the Cabinet to bring out fully the financial implications of the proposals in C (55) 96, it was agreed that the Treasury would prepare a draft of a paper which the Chancellor might put in. On the other hand, the Foreign Office might consider it advisable to put in a paper themselves when the Treasury could include such matter about financial amplification as they would wish to do. The question of the Foreign Office putting in a further paper was very much tied up with the General Election. If no Election, then Cabinet authority might be sought to go ahead with negotiations. The Foreign Office undertook to look into the question of their putting in a further paper: meanwhile the Treasury would start on drafting paragraphs which could be used either in a paper by the Chancellor or in a Foreign Office paper.

16/4/58
TOP SECRET

SIR ALEXANDER JOHNSTON

cc: Mr. William Armstrong
Mr. A. K. Potter ✓
Colonel Russell Edmunds

PALESTINE SETTLEMENT

Please see Mr. Armstrong's minute of 7th April and the Chancellor of the Exchequer's orders on it of 9th April.

My further meeting with the Foreign Office has now been held. They have given us a number of papers (now on file) showing the details and progress of their discussions with the Americans, and we have cross-examined them thoroughly. A note giving an up-to-date appreciation of the financial implications is now being prepared and will be submitted shortly. Meanwhile, the Chancellor has asked for a Cabinet paper for him to put in.

As far as they ever will, I think the Foreign Office now realise the enormity of their offence in putting this matter to the Cabinet without proper previous consultation with the Treasury. They are now being much more co-operative, and I have their definite agreement that the Treasury will be represented at further discussions with the Americans which are contemplated within the next week or two. The Foreign Office now intend to put in a further paper shortly - not, in view of the election, to ask yet for any Cabinet decision, but to bring Ministers up-to-date on various new developments, with which the Foreign Office are now keeping the Treasury fully in touch. The Foreign Office themselves have suggested that this further paper should be prepared in full consultation with us, and they are likely to agree to inclusion in it both of a clearer explanation of the tentative nature of the discussions with the Americans, and of a full statement of the implied financial difficulties and dangers of the proposals.

18

In view of this changed attitude, I think it would be very difficult for the Chancellor to insist on putting in a paper of his own at this stage, at least until we have tried to shape the next Foreign Office paper as we should like to see it. We should, of course, reserve the right to put in a separate paper if the Foreign Office will not include what we want in their own. Meanwhile, we are getting on with drafting a piece about the financial implications, for inclusion in the Foreign Office paper if they agree, or failing that to form a basis of a separate paper by the Chancellor to go in simultaneously.

May I have your approval to these tactics?

A. E. DRAKE

16th April, 1955

E.R.

19/4/65

Mr. Licht you will no doubt wish to discuss
Sir Leslie Rowan in the long cover and need care.
The object of this note, with which I agree, is to keep
you and Sir Leslie Rowan informed of developments, and to suggest
that Sir Leslie takes up with Mr Governor or with
the question of the sale of Israeli bonds here, on the lines
of §§ 8-12 of Mr Poth's note.

19
OTW
20/4

Sir Herbert Brittain

To see them MR. ARMSTRONG

way in

c.c. Sir A. Johnston
Mr. Compton
Mr. Drake

*please discuss
before Wednesday.*

TDR
23.12.

Plan for Arab/Israel settlement

'A' in IF.
592/238/01

'B' ibid

Sir Leslie Rowan has not yet seen the Foreign Secretary's paper on this subject dated 6th April (C(55)96) or your minute dated 7th April and the Chancellor's dated 9th April.

2. The financial implications of the plan for an Arab/Israel settlement were lightly treated in paragraph 8 of the Foreign Secretary's paper, and the Foreign Office had neglected to consult the Treasury about them. Although the Foreign Secretary's paper was in the nature of a report to Cabinet and did not ask for any Cabinet decision, the Chancellor wished to put in a paper of his own on the financial aspect. However the Foreign Office now intend to put in a further paper, not asking yet for any Cabinet decision but bringing the Cabinet up-to-date on various new developments. They have suggested that this further paper should be prepared in full consultation with us and they are likely to agree to inclusion in it of a full statement of the difficulties and dangers to which the plan will give rise on the financial side. In the circumstances Sir Herbert Brittain is being asked to agree that we should aim to put across the Treasury views in the further Foreign Office paper and not submit a separate paper for the Chancellor to put in (cf. the minutes of Mr. Drake and Sir Alexander Johnston, dated 16th and 19th April respectively).

Below

3. The financial implications are set out, together with your comments on them, in the fifth paragraph of your minute of 7th April. The following additional comments may be made on

/certain

E.R.

certain of the points you raised.

4. Inducements to Egypt and other Arab States. As regards the possibility of American aid to Egypt totalling \$300 m. (U.S.G. grant and I.B.R.D. loan) and its effect on the chances of the British/German/French consortium securing the contract for the High Aswan Dam, you and I have agreed that we can only hope that the consortium will have got so far in their negotiations with the Egyptian Government by the time the Government hears of the possibility of the American aid, that a large part of the High Dam work will in any case go to the consortium. Meanwhile the consortium are actively pursuing their negotiations and they believe that the people who matter in the Egyptian Government are now favourably disposed in principle to giving them the contract. However these are early days. The Egyptians will certainly not commit themselves until they are assured of release of the balances which are not covered by the present Sterling Releases Agreement, and we hope that they will not commit themselves until there has been a settlement of the Nile Waters question.

5. As regards the Egyptian request for additional sterling releases, I understand that the Foreign Office now feel that the negotiations on this question should not be held up on account of the Arab/Israel settlement plan and indeed that they should proceed at once notwithstanding the forthcoming dissolution of Parliament.

6. Compensation for Arab refugees' property. The Foreign Office have explained that the reference in C(55)96 to the Israel Government raising a further £10 - 15 m. on the London market was made under misapprehension. The proposal is that the Israel Government should be allowed to sell bonds in the U.K. and Commonwealth countries and it is hoped that about

/£15 m.

not a
part of
American
aid!

Disagree: we
are meeting
separately
on this.
20/4

E.R.

£15 m. can be raised in this way. (The Americans, with whom Mr. Shuckburgh has been discussing and drawing up the Arab/Israel settlement plan, consider that Israel has almost scraped the barrel through sale of bonds in the U.S. and that the most she can hope to raise through further sales there is about £5 m. Apparently they feel strongly that it is now time the U.K. and Commonwealth countries opened themselves to sale of these bonds.)

7. Inflationary dangers. Although, as you mentioned in your minute of 7th April, the Foreign Office are alive to these dangers, it was clear from the meeting which Mr. Drake and I had with them recently that they did not appreciate the dangers sufficiently. We shall be having further full discussions of this problem, as well as the other financial problems, with the Foreign Office and they have agreed that representatives of the Treasury should be present when the matter is next discussed with the Americans.

8. It appears necessary at this stage to let the Bank of England know that the question of the sale of Israel bonds in this country may be reopened fairly soon. The Foreign Office and State Department are treating the plan for an Arab/Israel settlement as top secret, because they believe that whatever chances of success it may have would be prejudiced if news of it were to leak out prematurely. They are most anxious that any discussion with the Bank of England of the Israel bonds aspect of the plan should take place at the highest level and that the rest of the plan should be outlined to the Bank even at this level only in broadest terms. Perhaps the best way will be for Sir Leslie Rowan to raise the matter orally with the Governor of the Bank of England.

/9. It

E.R.

9. It will be remembered that the Israelis were pressing last year to be allowed to sell Independence Bonds in the U.K. H.F. did not wish to press their preference for the open market so far as to object actively to the scheme put forward by the Israelis for private sales of bonds to their well-wishers in this country (see Mr. Compton's minute dated 2nd December 1954).

'C' in CF.
.83/149/01
Q

^{Hasbeen}
The scheme was finally turned down on the grounds -

- (i) that given our limited resources, our policy must be to give priority in lending to the Commonwealth and any loans to non-Commonwealth countries must be justified by very special circumstances;
- (ii) that the circumstances in the case of Israel could not be regarded as very special.

'D' ibid

(Mr. Maudling's letter dated - December 1954 to Lord John Hope in the Foreign Office.)

10. Last February we heard that Eire had decided to allow the sale of Israeli bonds. The Bank of England undertook to let us have their comments on this development, and to explain the extent to which residents of the U.K. and other Commonwealth countries could, if they so wished, invest in the Israeli bonds on sale in Eire (see my minute dated 15th February).

'E' ibid

However we have never had the promised comments.

11. If the plan for an Arab/Israel settlement materialises and if, when the matter has been gone into fully, we are satisfied that it is essential for the purpose of the plan that Israel should be allowed to sell bonds in the U.K., it looks as if the objection which we had last year to Israel's request for permission to sell such bonds in the U.K. would disappear. The circumstances, in the context of the Arab/Israel settlement plan, would be very special and we should ~~thus~~ be able to justify an exception to our general policy of giving priority in lending to the Colonies.

/12. Sir Leslie Rowan

E.R.

20

12. Sir Leslie Rowan may like to have a word with
Sir Herbert Brittain before he speaks to the Governor of the
Bank of England about all this.

Who does
not appear
as yet to
have been
shown Sir
a Johnston's
minutes of 19th April.

(A. K. POTTER)

19th April 1955

APW

PALESTINE SETTLEMENT

MEETING HELD IN THE FOREIGN OFFICE ON
WEDNESDAY, APRIL 27, 1955 at 11 a.m.

United Kingdom

United States

H.M. Trea- sury	{	Mr. Shuckburgh
		Mr. Rose
		Mr. Drake
		Mr. Potter
		Colonel Russell-Edmonds
		Mr. Lambert
		Mr. Simpson
		Mr. Arthur

Mr. Russell
Mr. Wilson
Mr. Mak

FINANCIAL QUESTIONS - ASSESSMENT, FINANCING AND
DISTRIBUTION OF COMPENSATION.

Mr. Shuckburgh thanked the representatives of Her Majesty's Treasury for attending the meeting and invited them to make a statement.

2. Mr. Drake said that the Treasury recognised the importance of attempting to achieve a settlement of the Palestine affair and did not wish to cast doubts on the need for Her Majesty's Government and the United States Government to work out and be prepared to contribute to such a settlement. There were, however, a number of points in which they were closely involved and on which they thought further discussion was necessary, namely:-

- (a) The Arab States would try to make us pay as heavily as possible for their cooperation, and it was important to know what was the total amount of money likely to be involved. He realised that we could not say much more about this at the present stage, but it was a point which must be carefully watched.
- (b) The Treasury's main interest was the amount of compensation to be paid to the Arab refugees, to which Her Majesty's Government would be expected to contribute: what were the chances of holding this to £100 million?
- (c) The distribution of the compensation would risk causing serious inflation in some Arab countries, notably Jordan: we should discuss means of minimising this risk.
- (d) It was proposed that Israel and world Jewry should contribute 30% of the total compensation to be paid, that is to say £30 million. He wondered whether this was possible: and if it was not, at what point should we know that there would be a deficit and where would the balance come from. In this connexion it had been proposed that the Israel Government should be allowed to sell bonds in the United Kingdom and Commonwealth countries. They had not been allowed to do so in the past,
/but

but the position was under review in the light of the present proposals for a general settlement. An office for the sale of these bonds had, in fact, been opened in Dublin, and there was nothing to stop citizens of the United Kingdom and certain Commonwealth countries (e.g. South Africa) from subscribing. If the sale of bonds were allowed in the United Kingdom, it was difficult to judge how far British Jews would in fact subscribe: we had no experience to go by.

- (e) It was difficult to see how the compensation was to be assessed and distributed. The Palestine Conciliation Commission were now engaged in assessing the value of abandoned Arab property, lot by lot, but the operation would take a long time. If we arranged for it to be speeded up, we should get a basis for distribution - and we could not distribute compensation without such a basis - but on the other hand we should probably find that the total assessment the P.C.C. made would exceed £100 million. He wondered how it was proposed to escape from this dilemma.
- (f) It was proposed that U.N.R.W.A. machinery should be used for the assessment and distribution of the compensation. If this were done, U.N.R.W.A. would need to continue in existence for longer than five years, which was its present lease of life; and we should have to assure ourselves that the other contributors would agree to a further extension of the Agency's life. There would also be extra work for U.N.R.W.A. and the Treasury would like to know what this would involve in terms of extra cost and machinery.

3. Mr. Shuckburgh explained that we should not try to justify the figure of £100 million by reference to any specific list of claims: we should hope to arrive at it at the end of a process of bargaining, and it would represent a general settlement of all claims by both sides after full consideration of the various counter claims.

4. Mr. Russell added that we should say that the various claims of both sides had been considered and disposed of, that the result of £100 million roughly represented what Israel could pay as the total value of immovable property abandoned by the Arab refugees, and that, since there was no more money available, the Arabs would have to take that sum or nothing. At the cost of deferring the date of distribution, the P.C.C. should probably not be asked to accelerate their listing of Arab properties until after negotiation of the £100 million; they would then assess the value of each plot so that the total reached £100 million.

5. On the question of the risk of inflation, Mr. Potter outlined the proposals for the distribution of compensation to the refugees and enquired whether, in view of paragraph 9 of Appendix 2 to the paper setting out the points of agreement reached in the London discussions during March, he was to understand that the United States representatives had

/objections

13

objections to the proposal made by the London Working Party on Refugees, that individual entitlements of more than £2,000 should be invested in some kind of development bank.

6. Mr. Russell said that the United States representatives had been fully conscious of the need to prevent inflation and to ensure that the bulk of the compensation should be invested in projects which would assist the refugees generally. They had, however, not been convinced that the proposals for a development bank were practicable or that the opportunities for investment in the area were sufficient to justify the establishment of such an institution. He felt strongly, however, that it was desirable to the greatest extent possible to ensure that the payments under the compensation scheme were invested in the area and that they were made in such a way as to prevent serious inflation.

7. Mr. Potter explained that purely from the point of view of preventing inflation the transfer of capital from the area was not objectionable. If it was spent in the area at all, it was bound to have some inflationary effect. This would not, however, be unhealthy if the money was properly invested. He suggested that we ought soon to consult our financial experts in the Middle East - Mr. Dale and Mr. Benski of the United States and Mr. Milner of the United Kingdom.

8. It was agreed that the advice of these representatives should be sought on the prevention of inflation and on other problems in connexion with the payment of compensation to the Arab refugees. The Treasury representatives undertook to draft a letter, which would be cleared with Mr. Russell, setting out the considerations involved without giving any hint that a general settlement of the Palestine affair was under active discussion. The letter would be sent to the representatives named above, and also to Mr. Crawford of the British Middle East Office, who would be asked to seek informally the views of the Director General of U.N.R.W.A.

9. On the question of the contribution of Israel and world Jewry to the total amount of compensation, it was agreed that we should require an unconditional undertaking by the Israel Government to raise £30 million. How they did so would be left to them; but we should have to inform them at the same time that they would be allowed to raise funds by the sale of bonds in the United Kingdom and, subject to the agreement of the Commonwealth Governments where necessary, from Jews in the Commonwealth countries. The Treasury representatives explained that it would not be possible to allow the Israel Government to raise a loan on the London market: in any case there was no prospect that a loan would be underwritten or subscribed. The Treasury would, however, examine the possibility of allowing exemption from income tax on gifts made by British Jews to help Israel pay the compensation. *see if the*

10. It was agreed that we should, at a suitable time, raise with the Iraqis the question of frozen Jewish assets in Iraq. In negotiation with the Israelis we should attempt to include these assets in the counter-claims that would be cancelled before the figure of £100 million was reached. The figure of £100 million which Israel would be required to pay would not then be abated, and we should try to prevail on the Iraqi Government to use the frozen Jewish assets for the resettlement of refugees in Iraq. If during the course of negotiations we were forced to abate the £100 million by the amount of the /assets

in form then, if it were decided to allow this, that they could

It is impossible for the Israeli Government successfully to float a loan on the London market

24

assets in question, the Iraq Government should be asked to pay the assets, along with the money made available by Israel, into the fund for the payment of compensation to the refugees. In either case the Israel Government having agreed to pay a certain figure in general settlement after consideration of all counter claims, would have to meet any claims made by Israeli citizens for the loss of their property in Iraq.

TOP SECRET

PALESTINE SETTLEMENT

MEETING HELD IN THE FOREIGN OFFICE ON
WEDNESDAY, APRIL 27, 1955 at 3 p.m.

United Kingdom

United States

H.M. Treasury
Mr. Shuckburgh
Mr. Rose
(Colonel Russell-Edmonds
Mr. Lambert
Mr. Simpson
Mr. Arthur

Mr. Russell
Mr. Wilson
Mr. Mak

FINANCIAL QUESTIONS - ASSESSMENT, FINANCING
AND DISTRIBUTION OF CONTRIBUTION

The Meeting resumed the morning's discussion of Israel's ability to raise £30 million and particularly to service the £90 million which she was expected to borrow.

2. The Treasury pointed out that Israel might protest her complete inability to undertake these commitments: not only because of the budgetary problem, but particularly because of her lack of foreign exchange. Over a recent six monthly period only one quarter of her foreign exchange had come from exports. Considerably more than one quarter had come from German reparations which would end in 1964. Moreover, receipts of foreign exchange from the sale of bonds were likely to fall off. The London Working Party had thought in terms of nearly £5 million a year servicing charges, but it appeared that even if the amount borrowed was less than then contemplated and even if the terms were less onerous, Israel's ability to service loans of £90 million was most doubtful. Similarly Israel might decline to pay the expected £10 million from her own reserves, which in any case are not large.

3. Mr. Russell recalled that the object of the Western Powers was to help the Arab refugees by means of these loans to Israel. The abatement of our interest rates should not therefore be excluded. We should hope to receive advice from the field in due course when questions of this kind could be broached.

4. It was agreed that we should first put our proposed terms for an interest bearing loan to the Israelis, offering them the longest possible amortisation of our loans. We should be prepared to consider in the course of negotiation: abating the interest on the two Governments' loans; granting Israel priority in raising and servicing the £30 million from Jewish sources over the servicing of the £70 million from the United States and the United Kingdom; and possibly giving informal assurances that in due course the payment of the interest and even repayment of the capital of the £70 million might be waived. The Treasury express grave doubts about these concessions and reserved their position on them: to mention them even informally must prejudice any chance of recovering the loan. We should also consider, when advice from the field could be sought, whether it would be feasible for Israel to pay part of the compensation in kind (e.g. in the form of agricultural machinery) instead of in foreign exchange; although

26

although the commercial interests of other parties could not be ignored.

5. The Treasury then inquired whether, assuming that an agreed figure of £100 million compensation resulted from the proposed "wash-out", the washed-out claimants would receive a share of the £100 million: if not, how would the discharge of these washed-out claims be obtained. The Meeting felt that the inclusion of washed-out claims in a share of the £100 million was probably undesirable. It would be extremely difficult to list all the conceivable claims which might have been washed-out and still more difficult to assess them, in relation to claims for immovable property by individuals. The best course seemed to be to lead the Arab Governments to ignore, and to accept public responsibility for ignoring, claims from municipalities (including the only one functioning in Jerusalem); from individuals for rents due in 1948-55; from individuals who might have lost ascertainable tenants' rights, movable property, etc; and all other claims except those for loss of immovable property by individuals or groups of individuals.

6. Mr. Shuckburgh said that it was desirable to try to formulate the discharge to be obtained from the various governments, defining the categories of claims which they would refrain from supporting. We should bear in mind that none of the refugees except those in Jordan were citizens of the "host" countries. It would be necessary also to cover the position of agencies (e.g. banks) which might hold Arab property in Israel and which might be open to claims through their branches in Arab countries.

7. The Meeting then considered what increase in U.N.W.R.A. would be necessary during the distribution of compensation. Assuming that the distribution was to be made to individuals (and no acceptable alternative had yet been found) a considerable increase of U.N.W.R.A.'s staff would be necessary for the purpose of exhibiting list of property identified by the P.C.C. and of receiving claims and counter-claims. It was not possible to assess the increased expenditure by U.N.W.R.A., but it would be heavy and only partly offset by the ration-cuts which would result if some of the refugees could be employed on this task. The worst side of the problem would be to provide staff capable of deciding the issues raised in each case. Staff with legal or quasi-legal experience would be needed and they would somehow have to be covered by an authority to take arbitrary decisions. Perhaps the solution might be for this work of arbitration to be done by travelling assessors from the United Nations agency which was expected to take over the P.C.C.'s task of identifying and assessing the properties. In that case the United Nations General Assembly might be the source of the authority (albeit a political rather than a legal one) for arbitrating in the many cases which were likely to be disputed.

8. The Meeting discussed next the commitment of the P.C.C. (in paragraph 5 of its 1954 Progress Report) to issue a separate report on its work related to compensation. The United Kingdom Delegation in New York had inquired, after discussion with the United States Delegation, whether we wished to influence the P.C.C. in its present indecision between preparing a historical résumé of the problem and an analysis of the question involving recommendations as to possible solutions.

27

9. It was agreed to instruct the United Kingdom Delegation, in consultation with the United States Delegation, to work for the former type of report, and in particular to dissuade the P.C.C. from bruiting new estimates of the compensation required which would shake confidence in the 1951 estimate of £100 million.

10. Brief consideration was given to a very tentative estimate of the incidence of payments of compensation. Assuming that Years 1 and 2 were taken up by the P.C.C.'s listing of properties and assessing their value in relation to the £100 million; and also that one could safely guess the distribution of properties on the basis of the P.C.C.'s 1951 investigations; it might be that the selected Agency would distribute:-

£10 million in Year 3 made up of £2 million for claimants to under £100 and £8 million (the value of common land) to be distributed among those claimants and among refugees with no claim at all.

£10 million a year in Years 4-9 inclusive, i.e. some £60 million made up of about £40 million for claimants to between £100 and £2000, and about £20 million being advances of £2000 each to claimants to more than £2000.

There remained the question whether the balance of about £30 million, due to claimants to more than £2000, should or could be held up until Years 9 and 10; or whether it should preferably be made available at an early stage for gradual investment e.g. through the proposed refugees' development bank.

11. It was agreed that the problems raised in paragraphs 5, 6 and 10 above should be tackled in the light of the advice which was to be sought from the United States and United Kingdom Treasury representatives in the field.

Top Secret

*Mr. Lambert
transmits
28/10/51*

28

MR. POTTER

Arab-Israeli Settlement

I attended a further meeting this afternoon and spoke at some length on the difficulties of Israel servicing a loan of the magnitude under consideration. I think that it was just as well that I did, because everyone is busy with the provision of the money and its distribution, and too little thought has been given to the fact that it is intended to be a loan, serviceable and repayable. If it goes forward, Ministers will have to be told with some emphasis that the prospects of recovery are pretty thin; but I also said that I am sure that the Israelis are not thinking in terms of £100m., and would certainly say that they cannot afford the burden of service on their receipts of foreign exchange.

Col. Russell Edmunds and I will compose a draft on avoiding inflationary effects.

HP Lambert
27/4

G.R.

Mr. Playfair

Mr. Potter

29

TOP SECRET

3/468

SIR HERBERT BRITAIN

Plan for Arab/Israel Settlement

Mr. Potter's minute of 19th April.

1. I mentioned this to the Governor to-day.

The Governor was aware of the general problem, and he said Mr. Playfair had mentioned to him the Foreign Office suggestion of a £15 million Israeli loan on the London market. He had merely said that this could only be regarded as a joke.

2. I asked the Governor to consider on the narrowest basis within the Bank the proposition about Israel selling bonds in the U.K. market and the general implications of this both technically and from the point of view of Commonwealth access to the London market. He has promised to do so and will let me have his comments, together with his comments on the point referred to in paragraph 10 of Mr. Potter's minute.

x
The Governor has said that they have strong objections; if we want to help Israel it should be loan for the Govt
T.R.
D.W.

T.R.

27th April, 1955.

Sir Leslie Rowan,

While this bond proposition has some attractions for us on the supply side (as likely to reduce pressure on H.M.S.) I don't want to press the matter against the very definite adverse views of the Bank.

On the question generally I understand that IF have
(ben

been attending some further talks with the Americans and
will be making a further submission, in conjunction with OF,
next week. (Papers are at present with Mr Drake).

SD

28/4/55

G.R.

M. Potter

Are there any further
developments pl.? Perhaps
you will let me know when
there are.

SECRET

30 A

M. Shiloh

2/5

I fear I let this
slide while the Budget
debates were on. I've
heard no more about it
meanwhile. Would you
can, at your convenience,
keep in touch with
Mr. Potter on our interest
(which is, I think, confined
to the market in London of
the Israeli bonds)?

EM 128/55

E.R.

Top Secret

Plan for Arab/Israel settlement: Israel bonds

Note for record

Mr. Armstrong had a sight of the papers recording the recent discussion in the Bank of England of the aspect of the plan which concerns the sale of Israel bonds in the U.K. market.


2. Mr. O'Brien's comments were

(i) that it was not sensible to talk of the sale of Israel bonds in the U.K. as if it were outside the ordinary run of borrowing; it was unlikely that Israel sympathisers in this country would subscribe for the bonds merely out of sympathy and without the attraction of a high interest rate;

(ii) that if we allowed the sale of the Israel bonds, we should find our decision difficult to explain to our Norwegian friends and we should be in deep water with the Commonwealth countries;

(iii) that rather than allow the sale of the Israel bonds we should make a Government loan to Israel.

The Governor agreed with these comments, and made the further point: what if the Israelis failed to raise the sum required from the sale of their bonds?


(A. K. POTTER)

2nd May 1955

On financial implications, the Treasury have joined with the Foreign Office in the further discussion which have taken place with the Americans at the Official level. From the meetings attended by the Treasury, the following points emerged.

1. The Arab States would try to make us pay as heavily as possible for their cooperation. Just what total amount of money this would be likely to involve could not be seen at this stage, but this was a point which must be carefully watched.
2. The proposed figure of £100 million is considered to be the minimum compensation which would make for a settlement with the Arab countries. The chances of holding to this figure need to be carefully assessed.
3. The distribution of the compensation would run the risk of causing serious inflation in some Arab countries, notably Jordan: it will be necessary to examine means of minimising this risk.
4. Whether it is possible for Israel and world Jewry to contribute 30% of the total compensation to be paid: if not, at what point should we know that there would be a deficit and where would the balance come from.
5. The assessment and distribution of the compensation presents difficulties and needs to be carefully considered.
6. U.N.R.W.A. would need to continue in existence for longer than five years (no present lease of life) and it is necessary to ensure that other contributors would agree to a further extension of the Agency's life.

With the agreement of the Americans, the views of the Treasury Representative in the Middle East, the Head of the Development Division of the British Middle East Office and of Mr. Dale and Mr. Binski, U.S. Representative in the Middle East will be obtained on *3 and 5 above* to enable further consideration to be given to these problems.

[O.F. para, info desired, about sale of Independence Bonds and the general policy about an Israel loan]

TOP SECRET

34

W. Potter

Herewith my suggested piece
- the Palestine settlement.

AW

2/5

TOP SECRET



35

My colleagues will no doubt wish to know as much as possible of the financial implications and practical difficulties of settlement on the proposed basis. In the first place, it is clear that our very desire to bring about a settlement will place a powerful weapon in the hands of the Arab countries which they will no doubt seek to use to extract from ourselves and from the U.S. Government the maximum possible financial assistance in other directions. As far as the U.K. is concerned, this is particularly true of Jordan, to which we are already giving assistance for the Arab Legion and for development totalling about £11 million a year. It is not possible to assess this danger in financial terms, but everything possible must clearly be done to guard against it in the course of negotiations.

In the second place, a number of financial points arise in connection with the proposed compensation to be paid by Israel to Arab refugees. On this question there have, since the date of the previous Cabinet paper, been a number of detailed discussions between the Treasury and the Foreign Office, and Treasury representatives have attended further meetings with the Americans. The following points have been noted and are the subject of further close examination.

1. The total figure of \$100 million has in itself no very firm basis and it is impossible to say at this stage that it will in fact be acceptable to both parties. The Arabs will naturally want more, but we can rely on the Israelis to demand that the amount should be less. It is the firm intention of both parties to the present Anglo-American discussions that \$100 million should be the maximum, but great skill in negotiation will be required to hold the amount to that figure.



36

2. It is the intention that at least £50 million will be provided by the Israelis, either from Israeli Government sources or by raising the money elsewhere. It is important that we should not, in addition to promising a contribution towards the balance, get ourselves into the position of in any way under-writing the Israeli share. ^{Our offer} ~~It~~ must be presented in such a way that we and the Americans are in effect contributing a maximum of £70 million, the balance to be found as best they can by the Israelis.
3. It will not be possible in any case to permit an issue of Israeli Government stock on the London market. This would be entirely against our present policy, and we are advised that such an issue would have little hope of success. It is possible that in the context of ^{an} Arab-Israel settlement we might be able to alter our existing policy to the extent of permitting the sale of Israeli Government Bonds in the United Kingdom and in the Commonwealth, if Commonwealth Governments agreed; but it is by no means yet clear that we could do even this, and the matter requires further consideration.
4. There is grave danger of serious inflation in the Arab countries concerned if as much as £100 million is released there without control, even over a period. Various possible measures to prevent this, such as the channelling of the larger amounts of compensation into constructive purposes through a Development Bank, are under active examination in consultation with the Americans.
5. The assessment, and distribution of the compensation in such a way as broadly to satisfy the claimants and lead to an effective lessening of tension in the area, are matters of extreme difficulty. Possible methods are under examination but it is clear that we must firmly insist on the Arab Governments taking full responsibility for the results of whatever system is eventually decided upon, and for meeting the complaints of the individual claimants who feel themselves aggrieved.



37

6. Apart from the claims of individual refugees to lost property there are a number of inter-governmental and inter-municipal claims which will no doubt be put forward on both sides during the course of negotiations. It is the intention that these should be regarded as cancelling each other out, but no doubt there will be hard bargaining which might, unless we are very careful, alter the whole picture considerably.

7. U.N.R.W.A. will have a large part to play in distributing the compensation and seeing that it is used to the best advantage in resettling the refugees. This will mean that the organisation will have to continue to exist for at least ten years, whereas its present agreed lease of life is for another 5 years. We must be sure that the other countries contributing to U.N.R.W.A. will be prepared to continue their support of it after 5 years and for as long as necessary. The question of the cost to U.N.R.W.A. of the functions it will undertake in connection with the compensation also requires further examination.

All these points are under active consideration, and it has been agreed with the Americans that the next step is to consult the financial representatives on the spot both of the U.K. and of the U.S. *particularly on points 4 + 5 above.* But it will, of course, be impossible to arrive at final solutions save in the course of negotiations with Israel and the Arab countries. I feel therefore that my colleague should be aware that there are financial and other uncertainties in the proposed settlement which cannot be finally removed before a decision in principle has been taken to go ahead with it.

Mr. Potter

SIR ALEXANDER JOHNSTON

PALESTINE SETTLEMENT

I attach a piece I have drafted for inclusion in a further Foreign Office paper for the Cabinet to be put in tomorrow. I have sent the top copy to O.F., and seek your approval to trying it out on the Foreign Office, subject to any comments that O.F. may have. It will be necessary to send it to the Foreign Office as soon as possible tomorrow morning.

You will wish to see the Minutes of the Meeting I held with the Foreign Office on 14th April, and the agreed minute of a meeting Mr. Potter and I attended with the Americans on 27th April (both flagged on the file).

I have not thought it necessary in the draft to discuss in detail the possible solutions to the points raised; the objective at present is to bring their existence to the notice of the Cabinet.

A. E. DRAKE

2nd May, 1955

TOP SECRET

MR. ARMSTRONG

c.c. Mr. Drake
Mr. Shillito

Plan for Arab/Israel settlement

FD - US plan
15. 10 from int. sources
20 from Bonds
39
U.S. 50
U.K. 15 (from Voter)
Favor de 5
100

- 'A' Please see paragraph 2 of my minute dated 19th April.
2. The Foreign Office have at length finally decided to follow up their paper C(55)96 dated 5th April with a further paper, not asking yet for any Cabinet decision but bringing the Cabinet up to date on certain new developments.
- 'B'
3. In the meantime we have had discussions with the Foreign Office and, in conjunction with the Foreign Office, with the Americans. Notes of these discussions, which took place on 14th April and in the morning and afternoon of 27th April, are placed below.
- 'C'
- 'D' & 'E'
4. In the meantime also the question of allowing the sale of Israel Government bonds in this country has been discussed between Sir Leslie Rowan and Sir Herbert Britain and by Sir Leslie Rowan with the Governor of the Bank of England (see the minutes by Sir L.R. and Sir H.B. dated 27th-29th April and cf. my note dated 2nd May). The Bank of England have strong objections.
- 'F'
- 'G'
- 'H'
5. Mr. Drake has drafted and submitted to Sir Alexander Johnston a piece incorporating the Treasury views for inclusion in the Foreign Office paper. He has asked for our comments on this draft. It is being arranged with the Foreign Office that the Chancellor shall have an opportunity of seeing and commenting on the proposed Foreign Office paper, before it finally goes in.

/6. I would

40

6. I would like to suggest the following slight amendments to Mr. Drake's draft.

I. In second paragraph, delete second and third sentences and substitute -

"These points, which have since the date of the previous Cabinet paper been the subject of detailed discussion between the Foreign Office and the Treasury and subsequently with the Americans, are set out below."

II. For points 2, 3, 4 and 5 (first sentence) substitute -

"2. It is the intention that at least £30 million should be provided by the Israeli Government, either from their own resources or by themselves raising the money elsewhere. Of the balance of £70 million it has been suggested that £50 million should be made available to Israel by gift or loan from the U.S. Government, £15 million by loan from H.M. Government, and perhaps £5 million by gift or loan from the French and other Governments. The question of a U.K. loan of the amount suggested will have to be considered from the points of view of the Budget, the balance of payments and our existing policy as regards access by foreign Governments to borrowing in this country. In any case it is important that we should not, in addition to promising a contribution towards the balance of £70 million, get ourselves into the position of in any way underwriting the sum to be provided by the Israeli Government. Our offer, if made, must be presented in such a way that we and the Americans are in effect contributing a maximum of £65 million, the balance to be found by the Israeli Government as best they can.

3. It would be impossible for the Israeli Government successfully to float a loan on the London market. It has been suggested that we might be able to modify our existing policy as regards access by foreign Governments

/to

41

to borrowing in this country, to the extent of allowing the sale of Israel Government bonds here. However the question of such sale presents serious difficulties.

4. There would be grave danger of serious inflation in the Arab countries concerned if a sum of the size of \$100 million were disbursed there in uncontrolled fashion, even over a period. Possible ways of controlling the disbursement are being examined in consultation with the Americans. The Arab Governments concerned will have to be brought into consultation in due course.

5. The assessment of the individual amounts of compensation in such a way"

III. For last paragraph, substitute --

"All these points require and are receiving further urgent examination. Every effort will be made to devise satisfactory solutions of them before a decision in principle has to be taken whether to go ahead with the proposed settlement. However I feel that my colleagues should be aware that there are bound to remain financial and other uncertainties about the scheme which can only be cleared up finally after the decision in principle has been taken and in the course of negotiations with Israel and the Arab countries."

7. It is clear that a great deal of further thought and examination will have to be given urgently to the financial points. As regards points 4 and 5 ^{and} of the question of the ability of the Israel Government to service the loans they will be taking, it has been agreed that the next step should be to consult our Treasury Representative in the Middle East and the two American Treasury Representatives there.

/s. I

8. I have flagged these papers immediate in view of the time factor.

(A. K. POTTER)

3rd May 1955

Mr. Lambert

I have indicated some amendments
which I think should be made to
para 9 of the rules of the meeting
held in Po on 27th April at 11 am.

J. 31/5/58

TOP SECRET

3rd May, 1955

Dear Arthur,

We should be very glad if you could make some alterations to the Minutes of the Meeting on the morning of 27th April on the Palestine Settlement.

They are all in paragraph 9, and are as follows:-

Second sentence to read: "How they did so would be left to them; but we should inform them, if it were decided to allow this, that they could" raise funds etc.

Third sentence to read: "The Treasury representatives explained that it would be impossible for the Israel Government to float a loan on the London market."

Fourth sentence to read: "The Treasury would see if there was any" possibility of allowing etc.

I hope that you will be able to make the changes indicated above.

Yours sincerely,

Geoffrey Arthur Esq.
Foreign Office.

H. S. Lambert

TOP SECRET

*Submitted 9 January 1953
Approved by Board on 22
Jan 1953*

DRAFT

My colleagues will no doubt wish to know as much as possible of the financial implications and practical difficulties of settlement on the proposed basis. In the first place, it is clear that our very desire to bring about a settlement will place a powerful weapon in the hands of the Arab countries which they will no doubt seek to use to extract from ourselves and from the U.S. Government the maximum possible financial assistance in other directions. As far as the U.K. is concerned, this is particularly true of Jordan, to which we are already giving assistance for the Arab Legion and for development totalling about \$14 million a year. It is not possible to assess this danger in financial terms, but everything possible must clearly be done to guard against it in the course of negotiations.

In the second place, a number of financial points arise in connection with the proposed compensation to be paid by Israel to Arab refugees. These points, which have since the date of the previous Cabinet paper been the subject of detailed discussion between the Foreign Office and the Treasury and subsequently with the Americans, are set out below.

1. The total figure of \$100 million has in itself no very firm basis and it is impossible to say at this stage that it will in fact be acceptable to both parties. The Arabs will naturally want more, but we can rely on the Israelis to demand that the amount should be less. It is the firm intention of both parties to the present Anglo-American discussions that \$100 million should be the maximum, but great skill in negotiation will be required to hold the amount to that figure.
2. It is the intention that at least \$50 million should be provided by the Israeli Government, either from their own resources or by themselves raising the money elsewhere.

Of the balance of £70 million it has been suggested that £50 million should be made available to Israel by gift or loan from the U.S. Government, £15 million by loan from H.W. Government, and perhaps £5 million by gift or loan from the French and other Governments. The question of a U.K. loan of the amount suggested has yet to be decided; but in any case it is important that we should not, in addition to promising a contribution towards the balance of £70 million, get ourselves into the position of in any way underwriting the sum to be provided by the Israeli Government. Our offer, if made, must be presented in such a way that we and the Americans are in effect contributing a maximum of £65 million, the balance to be found by the Israeli Government as best they can.

3. It would be impossible for the Israeli Government successfully to float a loan on the London market. It has been suggested that we might be able to modify our existing policy as regards access by foreign Governments to borrowing in this country, to the extent of allowing the sale of Israeli Government bonds here. However the question of such sale presents serious difficulties.

4. There would be grave danger of serious inflation in the Arab countries concerned if a sum of the size of £100 million were disbursed there in uncontrolled fashion, even over a period. The distribution of large numbers of relatively small sums to uneducated individuals, not used to handling money, could easily lead to the ultimate beneficiaries being thieves, cheats and speculators. The price of land and other forms of investment could rise to astronomical figures; leaving the original recipients of the benefits with a parking sense of grievance that they had received no real compensation for what they had lost. Possible ways of controlling the disbursement are being examined in consultation with the Americans. The Arab Governments concerned will have to be brought into consultation in due course.

47

5. The assessment of the individual amounts of compensation in such a way as broadly to satisfy the claimants and lead to an effective lessening of tension in the area, are matters of extreme difficulty. Possible methods are under examination but it is clear that we must firmly insist on the Arab Governments taking full responsibility for the results of whatever system is eventually decided upon, and for meeting the complaints of the individual claimants who feel themselves aggrieved.

6. Apart from the claims of individual refugees to lost property there are a number of inter-governmental and inter-municipal claims which will no doubt be put forward on both sides during the course of negotiations. It is the intention that these should be regarded as cancelling each other out, but no doubt there will be hard bargaining which might, unless we are very careful, alter the whole picture considerably.

7. U.N.R.W.A. will have a large part to play in distributing the compensation and seeing that it is used to the best advantage in resettling the refugees. This will mean that the organisation will have to continue to exist for at least ten years, whereas its present agreed lease of life is for another five years. We must be sure that the other countries contributing to U.N.R.W.A. will be prepared to continue their support of it after five years and for as long as necessary. The question of the cost to U.N.R.W.A. of the functions it will undertake in connection with the compensation also requires further examination.

All these points require and are receiving further urgent examination. Every effort will be made to devise satisfactory solutions of them before a decision in principle has to be taken whether to go ahead with the proposed settlement. However I feel that my colleagues should be aware that there are bound to remain financial and other uncertainties about the scheme which can only be cleared up finally after the decision in principle has been taken and in the course of negotiations with Israel and the Arab countries.

48

COPY

FOREIGN OFFICE, S.W.L.

TOP SECRET
URGENT

May 4th 1955.

My dear Johnston,

Your people have been kind enough to let me see a draft of the passage which you suggest should be inserted in the Secretary of State's Cabinet paper on Alpha. They have explained that the text has been seen by the Chancellor and that if we do not wish it to go in our paper, an alternative would be for the Chancellor to make it into a separate one over his own initials.

I have an open mind on this point, though I would have thought it more convenient for Ministers to have one paper only. I have, however, some comments on your text, on which I think we should certainly wish to insist if it were to form part of our paper. These are as follows:-

- (a) The first paragraph seems to be unnecessary
- (b) The last sentence of paragraph 2 seems to limit unnecessarily the amount the Americans might contribute. Would it do if the sentence read "Our offer should be presented in such a way that we are not committed to contribute more than 15 million pounds; the balances, after taking account of the American and other contributions, to be found by the Israeli Government as best they can".
- (c) In paragraph 7, I suggest that the third sentence be rewritten as follows. "We

Sir Alexander Johnston, K.B.E., C.B.,
H.M. Treasury.

/know

479

know from the fact of American participation in the proposals for a settlement that the U.S. Government, who contribute some 70% of UNWRA funds, would be prepared to continue their support of UNWRA for the required period; and we are confident that the other contributors would be disposed to do so in the context of a general settlement." I suggest this wording because I do not see how we can possibly make sure in advance what the other countries will do.

- (d) Finally, and this is really the most substantial point, I am very unhappy about leaving the paper in such a form that it could be said subsequently that we had no authority for continuing discussions during the next few weeks, knowing ~~as~~ we do that if successful they will lead to a financial commitment. The phrase "before a decision in principle has to be taken whether to go ahead with the proposed settlement" in the last paragraph of your draft suggests in fact that by allowing discussions to continue we should be exceeding our authority. In fact, as you know, the discussions have already begun and will be continuing with Nasser throughout May. I therefore suggest that the last paragraph should read as attached.

I shall of course be glad to discuss.

Yours ever,

SGD. EVELYN SHUCKBURGH

TOP SECRET

50

All these points require and are receiving further urgent examination. Every effort will be made to devise satisfactory solutions on them before any final commitments are made. In the meantime, however, I trust that I have the support of my colleagues in allowing the discussions with Egypt to proceed, knowing that if they are successful we shall be virtually committed to seeking a settlement which would involve the following financial commitments:-

- (a) a loan to Israel of the order of 15 million pounds;
- (b) facilities for the sale of Israel Government bonds in the United Kingdom.

At the same time I feel that my colleagues should be aware that there are bound to remain financial and other uncertainties about the scheme which can only be cleared up finally in the course of negotiations with Israel and the Arab States.

X/S/S
TOP SECRET

SIR ALEXANDER JOHNSTON

Copy to Mr. A.K. Potter ✓

PROPOSED PALESTINE SETTLEMENT

Colonel Nasser was first sounded about his reactions to a settlement of the Palestine question some time ago - first by the Foreign Secretary on his way to his Far Eastern tour, and later at the beginning of April by the British and U.S. Ambassadors. On the latter occasion his reaction was not entirely unfavourable (although he wanted cession to Egypt of the whole of the Negev) but he said he would like to talk the matter over further after his return from the Afro-Asian Conference at Bandoeng. He returned from Bandoeng three or four days ago and we were aware that the British and American Ambassadors would be approaching him again.

2. We were not aware, however, that anything at all definite would be said to Colonel Nasser at this stage about the lines of a proposed settlement. It appears that Mr. Dulles is personally insisting that the whole matter should be proceeded with immediately. It has been explained to him, the Foreign Office say, that owing to the Election it is not possible at present to get Cabinet approval to United Kingdom participation in the plan on the lines proposed. Nevertheless he still insists that discussions with Colonel Nasser should continue forthwith on a provisional basis. The American Ambassador has been instructed accordingly and it is essential that the British Ambassador should take part in the discussions.

3. This we accepted, assuming that the discussions would be at this stage of a very general nature and without any commitment. We discovered yesterday, however, that the instructions sent to the Ambassadors were in the form of the minutes of a meeting between the Foreign Office and the Americans, at which the Treasury was not present. These minutes go much too far in the direction of committing H.M.G. to participation, and even suggest that the Ambassadors can mention to Colonel Nasser the figure of £100 million which is contemplated in the plan for compensation of Arab refugees. Apart from anything else, the latter would of course be

55

tactically disastrous, since it is essential that this figure should not be mentioned until a comparative late stage in the negotiations both with the Arab countries and with Israel; the only hope of holding to it is to produce it, after agreement between those countries has failed, as a firm "take it or leave it" compromise which we and the Americans would back.

4 The Foreign Office fully recognise these points and they today sent off the attached telegrams to the British Ambassador in Cairo, and to Washington to get the instructions of the American Ambassador similarly changed. We can only hope that the Americans will agree to the change, and that the revised instructions will not arrive in Cairo too late.

5 The action of the Foreign Office in giving instructions to the British Ambassador which would allow him to commit H.M.G. before Cabinet approval has been obtained to British participation and the plan is almost incredible. Apart from Cabinet approval, it is by no means certain yet that we shall be able to agree to various essential features of the plan, such as the sale of Israeli Bonds in the United Kingdom, which is very strongly opposed by the Governor of the Bank of England. The Foreign Office are undoubtedly in a difficult position because of American pressure for quick action, but surely it would be better for Anglo-American relations, even to have a row with the Americans on this point now, than to risk the possibility of having to withdraw from the plan altogether after we had given them the impression that we should support it.

You and Sir Herbert Brittain thought that these facts should be brought to the notice of the Chancellor.

4th May, 1955

COPY DRAFT

The Treasury draft as approved by the Chancellor has had a fair initial reception in the Foreign Office and there seems to be a reasonable prospect of their accepting it for their Cabinet paper.

TOP SECRET 56

Mr. W. Armstrong
(copy of draft I have
sent to the Chancellor
this evening)
Arb
4/3/55

DRAFT LETTER TO: FOREIGN SECRETARY

I am becoming increasingly concerned with the way in which the approach to a possible Palestine settlement is developing. The proposals are of a very far reaching nature, and cover questions of policy, and serious financial implications for this country, on which Cabinet decision seems to me essential. It is quite impossible in my view to ask for Cabinet decisions on questions of such import before the General Election, and we cannot, I am equally sure, proceed without them.

I now learn that instructions have been given to the U.K. and U.S. Ambassadors in Cairo to approach Colonel Nasser in a way which would involve revealing to him the main lines of the proposals which are under consideration. It seems to me that however much our Ambassador may protest that H.M.G. is uncommitted at this stage, revelation of the proposals, even in outline, is in fact a commitment. Thereafter, to withdraw would put us less with the U.S. than with Colonel Nasser. This seems to be clearly borne out by the redraft just sent to us by Mr. Shuckburgh of the last of the Treasury paragraphs proposed for insertion in your new Cabinet paper. It is there explicitly admitted that to proceed with the discussions in Cairo will virtually commit us to two propositions, the first of which requires me to find £15 millions before I have any indication of the Cabinet's views on the plan as a whole.

is an impossible
position, no

6/5/4

57

and the second of which raises great difficulties for the Treasury which have not yet been resolved.

I feel most strongly that we should insist with our American friends that further action in this matter should be postponed for the present, both to enable the financial implications of the proposals to be more closely examined in consultation with U.S. and U.K. experts in the Middle East, and to enable the whole matter to be referred to the Cabinet next month. I cannot think that one month's delay would prejudice the possibilities of success.

TOP SECRET

58
4th May, 1955

I am becoming increasingly concerned with the way in which the approach to a possible Palestine settlement is developing. The proposals are of a very far reaching nature, and cover questions of policy, and serious financial implications for this country, on which Cabinet decision seems to me essential. We have recently had to carry on our Balance of Payments very heavy sums for Government overseas expenditure. Even the Opposition drew attention to this in the Budget Debates. It will surely be very difficult to obtain Cabinet decisions on questions of such import before the General Election, and we cannot, I am equally sure, proceed without them.

I now learn that instructions have been given to the U.K. and U.S. Ambassadors in Cairo to approach Colonel Nasser in a way which would involve revealing to him the main lines of the proposals which are under consideration. It seems to me that however much our Ambassador may protest that H.M.G. is uncommitted at this stage, revelation of the proposals, even in outline, is in fact a commitment. Thereafter, to withdraw would put us in an impossible position no less with the United States than with Colonel Nasser. This seems to be clearly borne out by the redraft just sent to us of the last of the Treasury paragraphs proposed for insertion in your new Cabinet paper. It is there explicitly admitted that to proceed with the discussions in Cairo will virtually commit us to two propositions, the first of which requires me to

/find

The Rt. Hon. H. Macmillan, M.P.

find £15 millions over a period before I have any indication of the Cabinet's views on the plan as a whole, and the second of which raises great difficulties for the Treasury which have not yet been resolved.

I feel most strongly that we should insist with our American friends that further action in this matter should be postponed for the present, both to enable the financial implications of the proposals to be more closely examined in consultation with U.S. and U.K. experts in the Middle East, and to enable the whole matter to be referred to the Cabinet when we are ready. While I realise how awkward delay might be, I think that we should be more likely to reach a successful conclusion in this way.

R. A. BUTLER

60

5/5/54 **SECRET**

SIR ALEXANDER JOHNSTON

Copy to Mr. Potter ✓

Palestine Settlement

Two further things remain to be done immediately:-

1. To reply to Mr. Shuckburgh's letter.
2. To move the Chancellor to put in his own Cabinet paper, since the Foreign Office do not agree with it.

On 2, the existing paper will not need much alteration, except for an introduction tying it in with the previous Foreign Office paper. I am afraid I cannot draft this as the papers are not with me at present. But I suggest that a paper from the Chancellor should go in immediately - today if possible so that it will get to Ministers before the House rises.

I suggest that you might reply to Mr. Shuckburgh on the following lines:-

.....

DRAFT

Would you please refer to your letter of 4th May about the proposals for a Palestine settlement.

We can accept some of the points you make; but the first and the last are I am afraid entirely at variance with our ideas. We consider it quite essential that when this matter comes before Ministers for decision, they should be fully aware that it may well lead to considerable pressure on this country to give further assistance to Arab countries, particularly Jordan. I cannot understand how you can describe this point as unnecessary, since the financial implications might be very large indeed. It seems to me imperative that Ministers should be put into the position of going into this with their eyes open.

61

On your last point, suggesting a redraft of the last paragraph of our draft, you will have seen the letter from the Chancellor to the Foreign Secretary. We were, of course, aware that the question of a Palestine settlement had been mentioned to Colonel Nasser and that further discussions with him were to be undertaken. We were, however, extremely surprised and distressed to find that instructions had been sent to the Ambassadors in a form which could only mean that the proposals you have been discussing with the Americans on a tentative basis would be disclosed to Colonel Nasser. It is difficult to see how such a step is possible without full Cabinet authority for the scheme and this applies to its political as well as to its financial implications. As regards finance, we have not yet by any means cleared the question of sale of Israeli Bonds in the United Kingdom and the Commonwealth. As you know the Governor of the Bank of England, without admittedly knowing the full background, is at present violently opposed to such a step. We may hope that eventually we may be able to see our way towards taking it. But to assume now that this will be the case would be rash in the extreme.

In these circumstances we see no alternative but to advise the Chancellor to put in the Treasury draft as his own paper immediately - modified to meet the other points in your letter which we fully accept.

W. E. DRAKE

5th May, 1955

E.R.

62

Mr Rickett

MR. ARMSTRONG

Plan for Arab/Israel settlement

The duplicate set of papers which we maintain in O.F. about this subject are submitted herewith for Mr. Rickett to see. (The original papers are in an I.F. file which is at present in urgent use on the I.F. side.) X 11F 592/238/01

2. Mr. Rickett will like to see especially -

- 'A' (a) Cabinet paper (55)96 dated 6th April
- 'B' (b) your minute dated 7th April
- 'C' (c) my minute dated 19th April
- 'D' (d) minutes by Sir Leslie Rowan and Sir Herbert Brittain dated 27th-29th April
- 'E' (e) my note dated 2nd May
- 'F' (f) statement of Treasury views, approved by the Chancellor, which was either to be incorporated in a further Cabinet paper put in by the Foreign Secretary or, if the Foreign Office demurred to this, to form the substance of a Cabinet paper put in by the Chancellor himself,
- 'G' (g) Mr. Drake's minute dated 4th May
- 'H' (h) draft letter from Chancellor to Foreign Secretary (this letter actually went last night).

(A. K. POTTER)

5th May 1955

63

IF.597/258/01

5th May, 1955.

My dear Shuckburgh,

I am sorry if you think that the wires got rather crossed in our handling of the financial aspects of the Palestine settlement. Our Ministers were, however, surprised to find that instructions had been sent to Ambassadors in a form which could only mean that the proposals you had been discussing with the Americans on a tentative basis would be disclosed to Colonel Nasser. It is difficult to see how such a step is possible without full Cabinet authority for the scheme, and we are, of course, concerned about its financial implications. We have not yet by any means cleared the question of the sale of Israeli Bonds in the United Kingdom and the Commonwealth. As you know, the Governor of the Bank of England is at present critical of any such step. We may hope that eventually we may be able to see our way towards taking it, but we cannot assume at present that this will be the case.

A

} x

On your letter of yesterday's date, we can certainly accept some of the points you make; but the first and the last are, unfortunately, entirely at variance with our ideas. We consider it is essential that, when this matter comes before Ministers for decision, they should be fully aware that it may well lead to considerable pressure on this country to give

/further

C.A.E. Shuckburgh, Esq., C.B., C.M.G.

I shall have proposed something /x. but I can't do it now. This point

644

further assistance to Arab countries, particularly Jordan. The financial implications might be very large indeed.

On your last point, suggesting a re-draft of the last paragraph of our draft, what I have said above will have indicated the difficulties we would see in accepting it.

In these circumstances, I think we shall have to advise the Chancellor to put in the Treasury draft as his own paper - modified to meet the other points in your letter which we fully accept.

Yours sincerely,

(Sgd) A. JOHNSTON

26
E.R.

TOP SECRET

TOP SECRET
Mr Potter 65

MR. ARMSTRONG

Plan for Arab/Israel settlement

You will like to see these latest papers. I understand from Mr. Drake that Sir Alexander Johnston has decided that before submission to the Chancellor of a paper to be put in by him to Cabinet, we should wait and see what reply the Foreign Secretary makes to the Chancellor's letter of 4th May.

Mr Rickett Thank you. *ADMR*

These pp complete and bring up to date the story contained in the papers I sent you yesterday.

ADMR
7/5

W/S
[Signature]
(A. K. POTTER)

6th May 1955

9/6/5

COPY

TOP SECRET

FOREIGN OFFICE, ¹⁰²

S.W.1.

May 6, 1955.

Dear Rab,

Thank you for your letter of May 4 about the approach to the Palestine settlement. I understand your difficulty about taking on a financial commitment at this stage. I had hoped that we might get the Cabinet to give approval to the plan including the two elements of a possible financial commitment, which were described in Sir Anthony Eden's Cabinet Paper of April 6. If however, you feel that this is not possible before the General Election, I shall have to accept your view.

As regards the risk of any commitment being undertaken by our Ambassador, I had thought this was covered by my telegram No. 996 of May 4 which I understand was cleared with your people. I suggest, in view of what you say that we might further safeguard ourselves by sending a telegram to Washington on the lines of the attached draft, with the object of ensuring that neither their Ambassador nor ours makes any reference to the financing of compensation until the later stage of consultation with the Israelis, which will not take place until after our elections. In this case, even if Nasser is prepared to go forward on the basis of our other proposals, we shall not even by implication have accepted any liability to help Israel pay compensation.

I should like to get the telegram off very urgently, since I am not sure how soon Mr. Byroade may be renewing his discussions with the Egyptians.

I have in the meantime instructed Sir Ralph Stevenson to consult me before saying anything at all himself.

I am sending a copy of your letter and my reply to the Prime Minister, since it was he who initiated the attempt to find a settlement for Palestine and who made the first approach to Colonel Nasser.

Yours,

(Sgd.) Harold Macmillan.

IMMEDIATE AND TOP SECRET

To be repeated to Cairo.

My telegram No. 996 to Cairo.

Alpha.

Please inform State Department urgently that my colleagues and I regret that we cannot make any further commitments in relation to an Alpha settlement before the United Kingdom General Election. I am, however, most reluctant to hold up discussions with Nasser and suggest that they should proceed but only on the most broad and tentative lines. On the matter of compensation to be paid by Israel I suggest that the two Ambassadors should merely say that the Israelis have always recognised their obligation to pay compensation in the context of a general settlement; but that no indication of the sum Israel could pay, of how she would raise that sum, could be given until after the presentation to Israel of such proposals as finally emerge. This, as the State Department knows, will not be until after May 26, since the proposals cannot be discussed by the U.K. Cabinet till after the General Election.

2. I trust the U.S. Government will understand our difficulty over this and will agree to instruct Mr. Byroade accordingly. I do not believe that this should seriously affect Nasser's attitude towards our approach since his interests seem to lie primarily in the territorial aspect of the plan.

COPY

TOP SECRET

68

7th May 1955.

Thank you for your letter of 6th May about Palestine, and for the endeavour which you have made to meet the difficulties which I raised in my letter of 4th May.

My main doubt was whether the approach to the Egyptians should be carried any further before the Cabinet had discussed the plan and all its implications, financial and otherwise. I see, however, that you have sent copies of our correspondence to the Prime Minister and obviously I must leave this aspect of the matter for him to settle.

If it is decided that discussions with the Egyptians should proceed, I should be glad if our financial position could be safeguarded (insofar as it can be safeguarded) along the lines which you suggest, though I have ventured to suggest a few amendments in the draft telegram to Washington which you enclosed. For convenience I have had it re-typed and attach a copy.

I hope that you do not think that the Treasury have been making difficulties about all this at a late stage. We had not been consulted before instructions were issued (in the form of the minutes of a meeting on 26th April at which the Treasury were not represented) for negotiations over the whole field to be reopened in Cairo, and the additional instructions to Cairo which were agreed by the Treasury and sent as telegram 996 were regarded by us as simply holding our position pending further consideration of the major issues.

I am sending a copy of this letter and enclosure to the Prime Minister.

R. A. BUTLER.

The Rt. Hon. Harold Macmillan.

Mr. Compton.

Mr. Potter + I would like to have a word with you about this. You last saw the papers at Flag 'C'.

It is clear that, if the Plan doesn't founder altogether, we shall be pressed strongly to go back to the Bank of England on the question of the Israeli bonds, + I understand that Sir A. Johnston had consulted Sir H. Birtain before offering the qualified hope at 'A' in his letter of 5th May.

Mr. Potter + I feel that we ought to get a clearer view from the Bank of their position. It appears from Sir R. Rowan's minute of 29th April (at Flag 'D') that they don't appear to realize that both a Govt.

68B

loan and freedom to sell bonds are envisaged. Moreover, O.F. are prepared to say that this plan if it comes off is of such outstanding political importance that they could deal with criticisms from Norway & the Commonwealth (Cf. the Bank's comments recorded in Mr. Potter's minute at Flag'g').

What we would like to ask you is whether you would be ready to ask Mr. O'Brien to come & talk to try & clear the ground, or whether it would be wiser to tackle the problem otherwise.

EAS.
11/5/55

~~Mr. Potter~~

Mr. Potter

609

~~Mr. [unclear]~~

To all
connected with
Section 11.

169/55

OIL DRILLING IN ISRAEL

PROMISING START

From Our Own Correspondent

TEL AVIV, May 11.

Drilling for oil started at the end of April near Kurnub, in the Negev, Israel's southern desert region, has already met with partial success.

The area had been earmarked for drilling even before the establishment of the State in 1948, Iraq Petroleum having built a road to the site several years earlier at a cost of over £100,000.

Present operations are being carried out by the Pan-Israel Oil Company and Israel-Mediterranean Petroleum Inc. The rig has already penetrated a "significant petroleum gas deposit at a depth of only 790 feet." This is the first time that gas of this composition—an ethane-methane mixture reflecting a hydro-carbon origin—has been found in Israel.

F

This might complicate things.

14/5

Sir A. Johnston recd 12/5.

British Embassy,

70

Sir Herbert Britain

Paris.
Foreign Office,
S.W.1.

for urgent advice pl
(we should like to have something
for the Chancellor tomorrow morning)

May 11, 1955.

TOP SECRET

R.A.
12.5.

IF 592/238/01
Sw A.S. 7/5

Dear Rab

Thank you for your letter of the 7th of May about Palestine. I am afraid that the first two amendments which you have proposed in my draft telegram go a good deal beyond safeguarding the financial position. They amount in fact to the suggestion that we should hold back for the time being in the joint effort on which we have been engaged with the Americans in seeking a solution for the Palestine problem. I could not agree to that unless the Prime Minister so decided.

I wonder whether there is not some misunderstanding as to the nature of this effort we are making. It is an attempt by the Americans and ourselves to use our good offices in order to

/ bring

The Rt. Hon. R.A. Butler, C.H.

bring about a settlement of this most dangerous dispute, which may at any time involve us in costly and unpopular military operations. We are not direct participants in the dispute and our only direct part in a settlement (apart from a possible financial contribution to which we are being careful not to commit ourselves at this stage) is in the matter of guaranteeing the territorial arrangements. In this we have everything to gain since our existing commitments would become far less burdensome if there were a settlement and if the Americans participated. The preliminary and tentative soundings have already taken place: and we have reason to believe that the Egyptians would at least contemplate making a settlement. The next step is to find out more precisely on what conditions they would be willing

/ to

British Embassy,
Paris. 72

Foreign Office,
S.W.1.

to do so. This ought to be done very soon if there is to be any chance of obtaining results before the prospect of American elections begins to bedevil their attitude to these matters. I am not optimistic of success; but I feel we ought to make the effort.

I could not ask the Americans to hold their hand at this stage. The effect, therefore, of accepting your position would be that we should have to dissociate ourselves from their effort and let them take the credit (or the blame) alone. After we have worked with them for five months in a part of the world where we claim a special position this would be regrettable.

I hope therefore that you will be able to see your way to accepting my draft of the first two sentences of the draft telegram to Washington. I

/ gladly

73

gladly accept your other amendments.

I am sending a copy of this letter to the Prime Minister.

Yours ever

David Mervin

Mr. A.K. Potter.

TOP SECRET

74

1. SIR ALEXANDER JOHNSTON
2. SIR HERBERT BRITAIN

IF.592/238/01.

PALESTINE SETTLEMENT

The Foreign Secretary's letter of 11th May.

The Foreign Secretary shows that he has still misunderstood the Chancellor's position, and I think some reference to this should be made in the Chancellor's reply. Nevertheless, on the assumption that the Prime Minister wishes the matter to go ahead and not be held up until after the General Election, I don't think we can insist on our first two amendments to the Foreign Office draft telegram. The telegram should however make it clear, in view of the terms in which instructions were originally given to the Ambassadors, that nothing whatever may be said about financial offers.

2. I suggest that the Chancellor should reply to the Foreign Secretary in ----- the terms of the attached draft. The proposed amendment to the original draft Foreign Office telegram has been cleared with the Foreign Office at official level (Mr. Shuckburgh).

A. E. DRAKE

12th May, 1955

DRAFT LETTER FROM THE CHANCELLOR TO THE FOREIGN SECRETARY

Thank you for your letter of 11th May about Palestine.

I am quite clear about the nature of the present operation as described in your letter. But my fear is that once we are embarked on this course, we may find ourselves involved in commitments, financial and otherwise, which are not at present apparent. For instance, additional inducements may well become necessary to persuade the Arab countries to come in; by the very fact that we are attempting to get a settlement, we put a strong weapon in their hands with which to force us to increase our financial assistance to them. I do not mean to say that for this reason we should abandon the whole attempt, since I fully realise the importance and the advantages to us of a settlement of the Palestine question. But I felt that these and other possible implications should be put fully before the Cabinet.

However, I do not want to hold up despatch of your telegram to Washington, and on the assumption that the Prime Minister has decided that the whole matter cannot wait until it can be discussed by the Cabinet after the General Election, I don't want to press my first two amendments. At the same time, I am still doubtful about the use of the words "on the basis proposed" in your original draft telegram. In effect the instructions to the Ambassadors took the form of a copy of the minutes of a meeting between British and United States officials held at the Foreign Office on the 26th April. Towards the end of the second paragraph of those minutes, three ways are listed in which United Kingdom and the United States Governments would be prepared to help: one of these was "to offer financial assistance to meet the commitments that a settlement would involve". I feel that it is necessary to avoid all mention of such an offer at this stage, and to make this clear I think that that part of the instructions should be specifically withdrawn. I suggest that this might be done by altering the first paragraph of your draft telegram as follows:-

"..... suggest that they should proceed on the basis proposed except that:-

(a) no reference should be made to any question of financial assistance by the United Kingdom under any settlement.

(b) on the matter of compensation to be paid by Israel, the two Ambassadors should merely say

I hopw that this amendment will be acceptable to you.

12th May, 1955

TOP SECRET

Mr. Dulles
2/562
Sir H. Brittain 77
Sir A. Johnston
(agreed yesterday with
Mr. Dulles in your
absence JMB (3/5))

13th May, 1955.

Thank you for your letter of 11th May about Palestine.

I am quite clear about the nature of the present operation as described in your letter. But my fear is that once we are embarked on this course, we may find ourselves involved in commitments, financial and otherwise, which are not at present apparent. For instance, additional inducements may well become necessary to persuade the Arab countries to come in; by the very fact that we are attempting to get a settlement, we put a strong weapon in their hands with which to force us to increase our financial assistance to them. I do not mean to say that for this reason we should abandon the whole attempt, since I fully realise the importance and the advantages to us of a settlement of the Palestine question. But I felt that these and other possible implications should be put fully before the Cabinet.

However, I do not want to hold up despatch of your telegram to Washington, and on the assumption that the Prime Minister has decided that the whole matter cannot wait until it can be discussed by the Cabinet after the General Election, I don't want to press my first two amendments. At the same time, I am still doubtful about the use of the words "on the basis proposed" in your original draft telegram. In effect the instructions to the Ambassadors took the form of a copy of the minutes of a meeting between British and United States officials held at the Foreign Office on the 26th April. Towards the end of the second paragraph of those minutes, three ways are listed in which United Kingdom and the United States Governments would be prepared to help: one of these was "to offer financial assistance to meet the commitments that a settlement would involve". I feel that it is necessary to avoid all mention of such an offer

/at this

The Rt. Hon. Harold Macmillan.

18
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"....suggest that they should proceed on the basis proposed except that:-

(a) no reference should be made to any question of financial assistance by the United Kingdom under any settlement.

(b) on the matter of compensation to be paid by Israel, the two Ambassadors should merely say"

I hope that this amendment will be acceptable to you.

R. A. BUTLER,

79

XXXX
XXXXXX
XXXXXX
XX

May 12, 1955

WASHINGTON

TOP SECRET

WASHINGTON

May 12, 1955

CAIRO

May 12, 1955

My telegram 996 to Cairo.

CAIRO

Alpha.

Please inform State Department urgently that my colleagues and I regret that we cannot make any financial commitments in relation to an Alpha settlement before the United Kingdom General Election. I am, however, most reluctant to hold up discussions with Nasser and suggest that they should proceed on the basis proposed, except that

- (a) no reference should be made to any question of financial assistance by the United Kingdom under any settlement, and
- (b) in the matter of compensation the two Ambassadors should merely say that the Israelis have always recognised their obligation to pay compensation in the context of a general settlement; but that no indication of the sum Israel could pay, or of how she would raise that sum, could be given until after the presentation to Israel of such proposals as finally emerge. This, as the State Department knows, will not be until after May 26, since the proposals cannot be discussed by the U.K. Cabinet till after the General Election.

XXXXXX
XXXX

2. I trust the U.S. Government will understand our difficulty over this and will agree to instruct Mr. Byroade accordingly. It does not look from Cairo telegram No. 609 [of May 10] as if this would seriously affect our prospects of making progress with Nasser, since the two Ambassadors in any case now recommend beginning with a more limited approach than was originally contemplated.

*Nasser in difficult
mood - put US/UK out
to isolate Egypt
Talk Nasser, paper like in
Thei, then 40 characters four
ideas about some other possibility*

E.R.

13/5/54

cc. Mr. Drake
Mr. Shillito

81

TOP SECRET

Plan for Arab/Israel settlement

The subject was discussed between Mr. Compton and Mr. O'Brien yesterday. Mr. Shillito and I were present.

2. Mr. O'Brien was aware that the question of the sale of Israel Government bonds in the U.K. had been reopened, but he was not aware of the context in which it had been reopened. Indeed he had understood that further consideration was simply being given to the request of the Israelis to be allowed to sell Independence Bonds in this country, which had been turned downtowards the end of last year.

3. Mr. Compton and Mr. Potter explained in general terms (a) the crucial importance of finding a settlement for the Arab/Israel feud and not allowing this sore to fester any longer and (b) the plan for a settlement which was being devised by the U.K. and U.S. Governments. It was explained that an essential feature of the plan was the payment by Israel to the Arabs of an amount of compensation running into many millions. The receipt of this amount in the Arab countries would itself present big problems if grave inflation was to be avoided. However the immediate point of the discussion was how Israel was to find the very large amount which they would have to pay. The U. S. Government would afford substantial help to Israel by way of loan and/or grant. It was suggested that the U.K. Government should help by way of a loan of £15 m. But it was essential, if the settlement plan was to have any prospect of success, that Israel should find, and be seen by the Arabs to find, a substantial (30% was proposed) proportion of the amount of compensation out of her own

/resources.

resources. The only way in which she could conceivably do this would be by supplementing such budgetary contribution as she could make by funds raised through the sale of bonds to world Jewry. The Americans had for some time now allowed Israel to sell her bonds in the U.S.A. and large sums had been raised in this way. However they believed that the U.S.A. as a source of funds was drying up and they were pressing us now to permit the sale of bonds in the U.K. and the sterling Commonwealth. It was probably true to say that unless the U.K. Government allowed this, a real difficulty in the way of Anglo-American co-operation over the settlement plan would arise.

4. Mr. O'Brien said that for him this threw quite a different light on the problem. He fully appreciated the great importance of the settlement plan. He was not much concerned about the danger of disturbance to the market if Israel were allowed to sell her bonds in this country. He doubted if there would be much sale for them (certainly not more than £5 m.) unless they were offered on very attractive terms. (Speaking from memory Mr. Potter said that he thought Since confirmed that the Israeli proposal of last year was for 15 year bonds carrying 4%). Mr. O'Brien was however still worried about the repercussions, if we allowed the sale of Israel bonds, on our relations with our Commonwealth and Scandinavian friends whose access to the London market was severely restricted. It was mentioned that the provisional view of the Treasury was that a decision to allow the sale of Israel bonds in this country, as an essential part of an Arab/Israel settlement plan, could be convincingly explained and justified to our Commonwealth and foreign friends. Mr. O'Brien appeared to


/be

E.R.

83

be not so sure of this, although he agreed that the difficulties would be eased if the terms of the bonds were such that they were more akin to a charitable appeal than an ordinary market issue. In any case he was not at present in a position to express any view of the Bank in the matter.

5. Mr. Compton explained that the Cabinet would almost certainly not take any decision on the settlement plan before the General Election. However in all probability the necessity of taking a decision would arise at an early stage in the life of the new government and the Chancellor would have to say urgently whether or not, as part of the plan, he was prepared to allow the sale of Israel bonds in the U.K. He would need the advice of the Governor on this point. It was in order that the ^{point}~~matter~~ should not be sprung on the Governor at the last moment that Mr. Compton had felt it desirable to explain the matter in fuller detail to Mr. O'Brien.


13th May 1955.

Minutes

84

TOP SECRET

URGENT.

Mr. Potter, Treasury

I attach a copy of the
draft Cabinet paper we discussed
this morning.

R. S. Owen
13/5.

Nothing to be Written in this Margin.

TOP SECRET

C (55)

COPY NO.

(Date)

CABINET

PALESTINE SETTLEMENT

DRAFT

CABINET PAPER

In his Memorandum of April 6

(C(55)96), Sir Anthony Eden summarised an agreed Anglo-American plan for the settlement of the dispute between the Arab States and Israel and indicated that conversations on the matter had taken place between the United States Ambassador in Cairo and the Egyptian Foreign Minister. I now give my colleagues an account of subsequent developments.

2. Immediately before he left for Bandoeng, the Egyptian Prime Minister sent a message through his Foreign Minister to Her Majesty's Ambassador in Cairo, to say that in spite of many misgivings he was ready to do his best to play the part which Her Majesty's Government and the United States Government wished him to play in restoring peace in the Levant. He suggested that the period of his stay in Bandoeng should be used by the two Governments to work out concrete proposals for a settlement of the Palestine affair. Both he and his Foreign Minister made it clear that their main interest in a settlement lay in the restoration of a land link between Egypt and the Arab States to the East. With this in mind, they were not prepared to consider making peace with Israel unless she abandoned the major part of the Negeb - a corridor

/across

...ros an Israeli Negeb would not suffice.

3. The proposals summarised in paragraph 7 of Sir Anthony Eden's Memorandum under reference provided for the establishment of a sovereign Arab right of way across the Negeb without impairing the Israeli sovereign right of way to Elath on the Red Sea. The idea was that Israel should cede two small triangles, one to Egypt with its base on the Egypt-Israel frontier and one to Jordan with its base on the Jordan-Israel frontier, in the extreme south of the Negeb a few miles north of Elath. The apices of the two triangles would meet at a point on the Israeli road from Beersheba to Elath; and at this point, which might need mixed or international supervision, a road from Egypt to Jordan under complete Arab control could pass over (or under) the road to Elath, which would remain under complete Israeli control.

4. In view of the Egyptian insistence that the land link between Egypt and Jordan must be something more than a corridor, Her Majesty's Ambassador in Cairo and his United States colleague expressed the view that the arrangement described above would not be acceptable to Colonel Nasser. The two Ambassadors proposed a number of alternative solutions ranging from joint Arab-Israel administration of the entire Negeb to the creation of an autonomous Arab territory under Western guarantees. Considering the importance of this point, further discussions were arranged between the Foreign Office

/and

and the State Department to review the proposal for the Negeb.

5. In these discussions it was concluded that the Israelis would never surrender the whole Negeb or the greater part of it as the Egyptians desired. They are deeply attached to this territory, which has for them a religious significance, ensures their access to the Red Sea and allows them to taste the freedom of an area in which they can be out of sight of an hostile frontier. On the other hand, there is little doubt that the Egyptians will not accept a settlement which leaves the whole of the Negeb in Israeli hands. The only means of reconciling the incompatible interests of both parties is by the principle underlying the proposal described in paragraph 3 above, that is the principle of a point at the junction of two triangles where the sovereignty appertains to both or neither.

6. It is proposed, therefore, that in their further discussions with Colonel Nasser on his return from Bandoeng, Her Majesty's Ambassador and the United States Ambassador in Cairo should attempt to secure his agreement to the principle of the double triangle as meeting his desire for a land connexion with Jordan. If Nasser shows interest in the principle and asks for an example of its application, the Ambassadors would then explain the proposal, described in paragraph 3 above, of a double triangle in the extreme south of the Negeb, coupled with transit rights across the northern Negeb between Egypt and Jordan. If they find that this solution is unacceptable to Nasser on account of

/the

the smallness of the territory ceded, it may be necessary to suggest that the double triangle principle might be applied to link both Egypt and the Gaza Strip to Jordan. This could be done by using the 1947 partition line south-east of Gaza and building upon it a triangle pointing eastwards to link up at the Israeli road from Beersheba to Elath with the apex of a second triangle whose base would be on the Israel-Jordan frontier opposite Shobek. This would involve a fairly large cession of territory by Israel in the Negeb and might, therefore, tempt Nasser, since he would be better able to defend a settlement of this kind to the other Arab States. It also has the merit, in Arab eyes, of being based on the partition of the Negeb recommended in the United Nations Resolution of 1947; and it would ease the pressure of the refugees in the Gaza Strip by giving them an opportunity to disperse eastwards. But it would leave Israel in control of all the cultivable land and all known mineral deposits in the Northern Negeb, as well as a sovereign right of way to Elath.

7. It would, however, be very difficult to induce the Israelis to accept this alternative proposal; and only if it seemed that Nasser's cooperation could be secured on this basis and on no other should we consider putting the proposal to him. If we did so, we should reduce the territorial concessions expected of Israel in other areas. It should be added that the Government of Israel have taken the position, in a formal communication to the United Kingdom and United States Governments, that they are not

/willing

willing to surrender any territory at all, though they do not rule out "minor and mutual" adjustments of frontiers as part of a general settlement. This uncompromising attitude may well persist during the pre-election period in Israel, and the timing of our approach will have to be carefully judged in relation to this.

8. My colleagues will wish to know as much as possible about the financial implications and practical difficulties of a settlement of the kind proposed. A number of financial points arise in connexion with the proposed compensation to be paid by Israel to Arab refugees. These points, which since the date of Sir A. Eden's memorandum under reference have been the subject of detailed discussion between the Foreign Office and the Treasury and subsequently with the Americans, are set out below:-

(a) The total figure of £100 million has in itself no very firm basis and it is impossible to say at this stage that it will in fact be acceptable to both parties. The Arabs will naturally want more, but we can rely on the Israelis to demand that the amount should be less. It is the firm intention of both parties to the present Anglo-American discussions that £100 million should be the maximum, but great skill in negotiation will be required to hold the amount to that figure.

(b) It is the intention that at least £30 million should be provided by the Israeli Government, either from their

/own

own resources or by themselves raising the money elsewhere. Of the balance of £70 million it has been suggested that £50 million should be made available to Israel by gift or loan from the United States Government, £15 million by loan from Her Majesty's Government, and perhaps £5 million from the French and other Governments. The question of a United Kingdom loan of the amount suggested has yet to be decided; but in any case it is important that we should not, in addition to promising a contribution towards the balance of £70 million, get ourselves into the position of underwriting in any way the sum to be provided by the Israeli Government. Our offer should be presented in such a way that we are not committed to contribute more than £15 million; the balance, after taking account of the American and other contributions, to be found by the Israeli Government as best they can.

- (c) It would be impossible for the Israeli Government successfully to float a loan on the London market. It has been suggested that we might be able to modify our existing policy as regards access by foreign Governments to borrowing in this country, to the extent of allowing the sale of Israel Government bonds here. However the

/question

question of such sale presents serious difficulties.

- (d) There would be grave danger of serious inflation in the Arab countries concerned if a sum of the size of £100 million were disbursed there in uncontrolled fashion, even over a period. The distribution of large numbers of relatively small sums to uneducated individuals, not used to handling money, could easily lead to the ultimate beneficiaries being thieves, cheats and speculators. The price of land and other forms of investment could rise to astronomical figures, leaving the original recipients of the benefits with a rankling sense of grievance that they had received no real compensation for what they had lost. Possible ways of controlling the disbursement are being examined in consultation with the Americans. The Arab Governments concerned will have to be brought into consultation in due course.
- (e) The assessment of the individual amounts of compensation in such a way as broadly to satisfy the claimants and lead to an effective lessening of tension in the area, are matters of extreme difficulty. Possible methods are under examination but it is clear that we must firmly insist on the Arab Governments taking full responsibility for the results of whatever system is eventually decided upon, and for meeting the complaints of

/the

● the individual claimants who feel themselves aggrieved.

(f) Apart from the claims of individual refugees to lost property there are a number of inter-governmental and intermunicipal claims which will no doubt be put forward on both sides during the course of negotiations. It is the intention that these should be regarded as cancelling each other out, but no doubt there will be hard bargaining which might, unless we are very careful, alter the whole picture considerably.

(g) U.N.R.W.A. will have a large part to play in distributing the compensation and seeing that it is used to the best advantage in resettling the refugees. This will mean that the organisation will have to continue to exist for at least ten years, whereas its present agreed lease of life is for another five years. We know from the fact of American participation in the proposals for a settlement that the United States Government, who contribute some 70% of U.N.R.W.A. funds, would be prepared to continue their support of U.N.W.R.A. for the required period; and we are confident that the other contributors would be disposed to do so in the context of a general settlement. The question of the cost to U.N.R.W.A. of the functions it will undertake in connexion with the

/compensation

If it is decided, after the current discussions with Colonel Nasser, to proceed towards a settlement on the lines proposed, ^{British will have} ~~authority~~ ^{to decide whether they can agree to} would be required for the following commitments which would, so far as can be seen at present, represent the limits of H.M.G.'s financial liabilities -

compensation requires further examination.

9. All these points require and are receiving further urgent examination. Every effort will be made to devise satisfactory solutions on them before any financial commitments are made or any action taken which might imply such commitments. In the meantime H.M.Ambassador and the United States Ambassador in Cairo have been instructed to avoid in their current talks with Colonel Nasser all discussion of the financing of Israel's compensation to the Arab refugees. Thus H.M.G. cannot be committed to any financial contribution before the proposals are discussed with Israel which will be the next step if the talks with Nasser are successful; and since any proposals for a settlement are liable to become public soon after they are presented to the Israelis, Mr. Dulles has agreed with me that no approach should be made in Tel Aviv before the end of May. This delay will enable a decision by the Cabinet on the financial implications of the plan to be deferred until after the General Elections.

10. ~~[If it is decided, after the current discussions with Colonel Nasser, to proceed towards a settlement on the lines proposed, Her Majesty's Government's financial Liabilities could, as far as can be seen at present, be limited to:]~~

(a) a loan to Israel of the order of £15 million;

(b) the provision of facilities for the sale of Israel Government bonds in the United Kingdom.

However, I feel that my colleagues should be aware that there are bound to remain financial

/and

86

and other uncertainties about the scheme which can only be cleared up finally in the course of negotiations with Israel and the Arab States.

I do not overlook the probability that the parties to the dispute, and particularly Jordan, will seek to make the U.S. Government and ourselves pay for their cooperation in terms of increased financial assistance. As far as H.M.G. are concerned, we shall resist any pressure of this kind.

E.R.

Mr. Drake
Thank you.
agree generally

TOP SECRET

MR. ARMSTRONG

c.c. Mr. Drake

Plan for Arab/Israel settlement

14/5/58 87
I mentioned to, but
we were by Sir...
Rosen... have agreed
to the draft Cabinet paper,
subject to the amendment of
para 10 indicated on the
slip attached to the draft.
Mr. Johnston + Sir H. Williams
also agreed.

'A'
'B'
'C'
'D'
'E'
'F'

Since you last saw these papers, the Foreign Secretary replied to the Chancellor on 6th May; the Chancellor wrote again to the Foreign Secretary on 7th May; there has been a further reply from the Foreign Secretary (which I have not yet seen); and I understand that the Chancellor has written again to the Foreign Secretary on the lines of the draft attached to Mr. Drake's minute of 12th May. The Foreign Office have since telegraphed Washington.

2. As I mentioned to you, Mr. Compton, Mr. Shillito and I had a discussion with Mr. O'Brien yesterday evening. See my note of the discussion.

3. At a meeting between Mr. Drake and myself and Mr. Arthur (Foreign Office) this morning Mr. Drake and I discussed the draft of the further Cabinet paper which the Foreign Office wish to submit to the Foreign Secretary, and we agreed to it, subject to certain amendments and subject also to clearance at higher level in the Treasury. A copy of the amended draft is attached.

4. The paragraphs of the draft which concern the Treasury are nos. 8 to 10. Paragraph 8 reproduces what had been suggested by the Treasury themselves, after clearance with the Chancellor. As regards paragraph 10 Mr. Shillito has suggested the inclusion of the following words at the end of clause (b) -

"(this is on the assumption that the difficulties referred to in paragraph 7(c) above can be overcome)" -

/Subject


Mr. Drake, Mr. Shillito
and I have since
agreed a different
amendment to paragraph
10 - see slip attached
to draft. 14/5/58

E.R.

88

Subject to this addition, I think we can now, as O.F., agree to the draft paper.

5. As I also mentioned to you, Mr. Drake and I impressed on Mr. Arthur that we saw little hope of clearing the question of the sale of Israel bonds in the U.K. unless we could put the whole matter in sufficient detail to the Bank of England. We made it clear that if this were done, the Bank would almost certainly ask to be associated with further discussion of the financial aspects of the plan generally (which we ourselves would welcome). Mr. Arthur undertook to try and secure F.O. agreement to the requisite letter being sent to the Bank without delay at the appropriate Treasury/Bank level.


(A. K. Potter)

14th May 1955.

TOP SECRET

FROM FOREIGN OFFICE TO WASHINGTON

Cypher/OTP

DEPARTMENTAL DISTRIBUTION

No. 2337

D. 2.35 p.m. May 15, 1955

May 15, 1955

IMMEDIATE

TOP SECRET

Addressed to Washington telegram No. 2337 of May 15
Repeated for information to Cairo [Priority].

My telegram No. 996 to Cairo.

Alpha.

Please inform State Department urgently that my colleagues and I regret that we cannot make any financial commitments in relation to an Alpha settlement before the United Kingdom General Election. I am, however, most reluctant to hold up discussions with Nasser and suggest that they should proceed on the basis proposed, except that:

- (a) No reference should be made to any question of financial assistance by the United Kingdom under any settlement, and
- (b) in the matter of compensation the two Ambassadors should merely say that the Israelis have always recognised their obligation to pay compensation in the context of a general settlement; but that no indication of the sum Israel could pay, or of how she would raise that sum, could be given until after the presentation to Israel of such proposals as finally emerge. This, as the State Department know, will not be until after May 26, since the proposals cannot be discussed by the United Kingdom Cabinet till after the General Election.

2. I trust the United States Government will understand our difficulty over this and will agree to instruct Mr. Byroade accordingly. I do not think that this would seriously affect our prospects of making progress with Nasser, since his interests seem to lie primarily in the territorial aspects of a settlement.

DISTRIBUTED TO:

Levant Department
African Department

565666

VR1076/884.

TOP SECRET
PERSONAL

WITH THE COMPLIMENTS

OF

MR. E. E. ARCHER,
LEUANT DEPARTMENT

FOREIGN OFFICE,

June 2, 1955

90

MR. POTTER

Alpha

Col. Russel Edmunds brought me the attached for our comments. I have made one or two, but the whole thing seems to me to go into more detail than we had intended. However, if the F.O. are prepared to put it forward, disclosing so much of our thinking, I suppose we need not object.

H. H. [unclear]
20/5

91
FOREIGN OFFICE, S.W.1.

(VR 1076/92G)

May 17, 1955.

TOP SECRET
& PERSONAL

Dear Russell

We discussed recently the decision, taken at the meeting in Arthur's room on April 27, to seek the views of Milner and others on certain financial and economic aspects of a possible settlement between Israel and the Arab States.

I now enclose two copies of a draft letter to Milner and the two Americans which we should be grateful if you would clear so that it can be put to Washington.

We are drafting also a simple letter to Sir John Sterndale Bennett (copy Crawford) which would ask him to arrange for Crawford to sound Labouisse very tentatively about UNRWA's rôle without bringing him into our counsels.

Yours sincerely

(Sgd) Ken

(K. J. Simpson)

Colonel W. Russell Edmonds, O.B.E., T.D.,
Treasury.

letter

- 1. Mr. Hilner,
Cairo.
- 2. Mr. Bondy,
U.S. Embassy,
Cairo.
- 3. Mr. Dale,
U.S. Embassy,
Beirut.

From:

H.M. STANSBURY
U.S. Treasury

Copy to:

Sir Ralph
Stevenson,
Cairo.

Mr. Byrads,
U.S. Embassy,
Cairo.

and under copy-
rate draft to:

Sir John Stearns-
dale Bennett,
R.H.S.O.

Mr. Crawford,
Beirut.

In the recent past the Israeli Government have made various statements about their readiness in principle to pay compensation to Arab refugees from Palestine. These have been linked with demands for a general settlement, of which the elements have not yet been offered by either side; but we feel that we must be prepared for any shift in the log-jam and have been giving the matter some thought.

2. If and when the compensation issue is raised seriously, both the Arabs and Israel will advance large claims and counter-claims which will prove almost impossible to evaluate. These will include: on the part of Israel, claims for abandoned property in Jordan, war damage, and Jewish property sequestered in the Arab States; and on the part of the Arabs, movable property, tenants' rights, and loss of use and rents on property, as well as immovable property itself. The most promising outcome of the inevitable process of bargaining might be a fixed figure representing the net amount to be paid by Israel for compensation for movable property after all other claims and counter-claims have been taken into account and balanced against each other. In order to have a figure for discussion, let us assume that the agreed figure is \$100 million (the Palestine Conciliation Commission estimate of 1954) and that the P.C.C. will not have completed their current identification of abandoned Arab property until after the negotiation of this figure; they would then

/s/

[Letter on these lines was
Suzanne's - copy will
be att. to file later]
11/7

be able to assess the value of each property so that the total reached \$400 million.

3. Then comes the question of how much Israel could contribute towards the \$400 million. It is important for psychological reasons with respect to the Arabs, as well as to minimize possible financial burdens on the United States and United Kingdom, that Israeli contributions to compensation should be as large as possible. Without any real facts to go on we would here make a second large assumption: that Israel and world Jewry combined could pay 30 per cent. of the \$400 million, the remaining 70 per cent. being provided by the world community in the form of loans to Israel. In order to obtain the maximum assistance from international Jewry, which might have to provide say 20 per cent. of the total, it would be necessary to permit Israel to [sell bonds] in the United Kingdom and appropriate parts of the Commonwealth.

Permission for this has of course not yet been sought and we cannot assure that it would be given; and if it were, we have no means of judging what the [yield] might be. The principle would be that Israel was fully responsible for the payments to the claimants and that she accepted responsibility for repaying and servicing all loans, whether made by Jews or foreign Governments.

4. On the other hand, it is possible that Israel might protest her complete inability to undertake such commitments: not only because of the budgetary problem, but particularly because of her lack of foreign exchange. She might regard it as quite impossible to service loans of \$20 million from the Jewish community

/end

? raise funds, either by the sale of bonds or by other means,

? resulting amount

and \$70 million from foreign Governments; and she might decline to pay as much as \$40 million from her own small reserves of foreign exchange. At all events Israel's task would be a formidable one and we have wondered whether it would be feasible for her to pay part of the compensation in kind (e.g. in the form of agricultural machinery, or textiles, or something else) instead of in foreign exchange: without imposing an intolerable burden on the agency which had to distribute the compensation, and without unduly hampering the commercial interests of other parties. Even the most informal mention of any such concession to the Israelis would be seized upon avidly; and we should therefore like to clarify our thoughts on this privately and should welcome your considered opinion.

5. The major question which we might have to face is, however, whether and how the distribution of say \$400 million of compensation could be effected without causing disastrous inflation. I attach a table showing our very tentative guess at what shares of the amount might be claimed by various categories of persons. There are, of course, many conceivable methods of distribution taking either more or less account of the claimant's own wishes. At one end of the scale one might conceive the establishment of a development fund in which all claimants would be given shares according to their claims, and on whose success they would have to wait for their benefits. At the other end, cash might simply be paid out as rapidly as possible to each claimant. Our tentative thought is that, as the Arab Governments would have to approve the arrangement,

both on her own budget and
also

arrangement, there would be the strongest pressure for individual payments; and that, in case this pressure could not be entirely resisted, we should start thinking out means of mitigating the inflationary effects. On this also we should be grateful for your advice.

6. Perhaps it may help to set out a few thoughts which have occurred to us. There seem to be three broad groups of claimants. First there are the claimants to \$400 or less who should probably be paid at an early stage for psychological reasons, and among whom we think the value of currency (masha*) land might be divided for the sake of simplicity. Secondly there are claimants to between \$400 and \$2000 - about half the total number of refugees according to our guess. Thirdly there might be about 4000 claimants to over \$2000 - an aggregate of over half the compensation we have tentatively assumed to be available.

7. As regards the first group, we have noted the recent Arab League discussions of a travel document to be issued to Palestine refugees by member Governments, and we assume that these people would have considerable freedom as individuals to travel to where work is available. We have thought of something like \$100 as being enough to stake a five person family to such a move, but should welcome your views.

8. As regards the second and third groups, we have had an opinion that about \$2000 might be enough to set up a small-holding or small business without much capital equipment, in most parts of the Middle East. And we have thought that, if it were desired to defer making full payment to the "big" men, some such cash advances to them (of the order of \$2000) could hardly be avoided if cash were being paid to Group Two.

9. As regards the third group in particular, it might be politically and economically advisable to make the balance of their money, over and above any \$2000 advance, create employment in the area in the same way as the property it represents used to do in Palestine. If it were practicable, this group might establish a Development Bank - say with a board elected by themselves, save for one official member who might have a vote on liquidation so as to prevent the sudden release for consumption of the roughly \$34 million involved.

10. We assume that, as a matter of principle, UNRWA's de-registration procedure would be applied when payments were made to anyone on their rolls; and that refugees who were resettled by UNRWA would hand over their compensation in part payment to the Agency.

11. The period over which compensation would be paid could, we think, justifiably extend to about ten years in view of the time which the P.C.C. would take to determine individual claims, the difficulty of collecting funds, and the low economic absorptive capacity of the area. Purely as an illustration, Years 1 and 2 might be taken up by the P.C.C.'s assessment; Year 3 might see the payment of \$40 million to the poorer claimants (Group One); Years 4-9 might see the payment of \$50 million to Group Two and advances to Group Three; and either later or earlier the balance might be paid to Group Three.

12. The whole purpose of this letter, however, is not to plant ideas upon you but to seek your advice about this matter - the best way to time the releases, having regard to the probable

/dmand

demand for small businesses and jobs; the way to secure useful investment rather than quick consumption of the money; the way to mop up (e.g. by Government action) the surplus capital; the particular pitfalls you may foresee; and any other aspects of the problem on which you can help. Obviously you cannot answer off the cuff, but we should welcome your opinion as soon as possible.

13. I should like to mention finally some legal aspects of the problem. We have assumed that our tentative figure of \$400 million might result from a "wash-out" of claims other than those for Arab immovable property; and, since it would be extremely difficult to assess all the conceivable "washed-out" claims, we are inclined to consider that it would be undesirable to allot part of the \$400 million for pro rata settlement of these. The best course seems to be for the Arab Governments to ignore, and accept public responsibility for ignoring, such claims from municipalities or other bodies or individuals. Our preliminary advice is that those whose claims had been either washed out or inadequately met by payments from the \$400 million would have no effective redress if care were taken to bind the Governments involved not only to refrain from supporting such claims but to bar them in their courts. This would be a most important step and careful formulas would have to be worked out to cover it. It would be necessary to cover the position of agencies (e.g. banks) which might hold Arab property in Israel and might otherwise be open to claims through their branches in Arab countries. If you have any ideas on this aspect of the operations also, we should welcome them.

14. The terms of this letter have been agreed with the State Department and similar letters are being ~~sent~~^{addressed} to ~~alternatively~~ Milner/Bendky/Dale, with copies to the U.K. and U.S. Ambassadors in Cairo, to the Head of the B.M.E.C. and to Crawford at Beirut.

15. You will readily understand that if either of the parties to the Arab/Israeli dispute suspected that we were giving thought to the question of compensation for the Arab refugees there would be an outcry and the chances of an ultimate settlement of the question would immediately become more remote. I must therefore ask you not to discuss these enquiries with anyone at all except personally with

1. ~~Mr. Milner~~ Sir Ralph Stevenson and Bendky, the American Treasury Representative.
2. ~~Mr. Bendky~~ Mr. Byroade and Milner, the British Treasury representative.
3. ~~Mr. Dale~~ Crawford of the British Development Division.

Rough Calculations of the Entitlements of Palestinian
Refugee Families to Compensation for Real

Property

Total number of families 180,000
Total of such compensation \$100 m.

<u>Category</u>	<u>Number of Families</u>	<u>Amount due \$ million</u>
a) No property	35,100	-
b) Under \$100	36,600	\$2 m.
c) \$100 - \$1000	82,700	\$27 m.
d) \$1000 - \$2000	13,860	\$15 m.
e) Over \$2000	<u>11,140</u>	<u>\$5 m.</u>
	<u>180,000</u>	<u>\$100 m.</u>

Category (e) might:-

- (1) claim in cash \$22 m.
- (11). invest \$34 m.

COLONEL RUSSEL EDMUNDS

Alpha

Mr. Simpson's letter of 17th May and its enclosure.

2. I have the following comments and suggestions on the draft letter to Messrs. Milner, Bensky and Dale.

Paragraph 3. Delete from the latter part of the third sentence to the end of the paragraph and substitute -
".... the remaining 70 per cent being provided by foreign Governments in the form of loans to Israel. The principle would be that Israel was fully responsible for the whole £100 m. and that she accepted responsibility for the service and repayment of all loans, whether made by world ~~currency~~ or foreign Governments. Consideration is being given to the question whether, in order to obtain the maximum assistance from world ~~currency~~, which might have to provide say 20 per cent of the £100 m., Israel ~~can~~ could be permitted to raise funds by the sale of bonds in the U.K. and other parts of the sterling Commonwealth."

Paragraph 4. From the first sentence delete the words "On the other hand".

In the last sentence, for the word "would", substitute the word "might".

Paragraph 6. The division of claimants into three broad groups is arbitrary. The wording of the paragraph should be amended accordingly.

Paragraph 7. Use of the verb "to stake" looks odd to me, but maybe I am merely ignorant.

Paragraph 9. The figure in the last sentence should be £30 m. in order to square with the figures of £10 m. and £60 m. mentioned in paragraph 11.

/ Table.

Table. The column headed "Amount due" should be headed "Amount claimed (tentative guess)" (cf. second sentence in paragraph 5 of letter). The value of masha' land should somehow be included in the column.

The comment about Category (e) is misleading and should be omitted.

Another column might be added as follows -

		<u>Compensation allocated</u> (tentative guess) <u>£ million</u>
a)	}	10
b)	}	
c)	}	
d)	}	90*
e)	}	

* of which say £60 m. might be paid in cash and £30 invested.

3. We might perhaps discuss these comments and suggestions, and any others which I.F. may have, before giving the Foreign Office final comments and suggestions from the Treasury as a whole.

(A. K. POTTER)

21st May 1955

FOREIGN OFFICE, S.W.1.

June 2, 1955.

TOP SECRET & PERSONAL

Dear Potter

During our discussions on a possible settlement of the Palestine affair you told us that the Treasury felt that the Bank of England must soon be consulted on the question of the sale of Israel Government bonds in the United Kingdom and sterling Commonwealth; and you suggested that the Foreign Office should draft a suitable letter which a senior Treasury official could send to the Governor or Chief Cashier of the Bank.

--- We suggest that the letter might be based on the enclosed draft.

Yours ever

Geoffrey Arthur

(G.G. Arthur).

A.K. Potter, Esq., C.B.E.,
Treasury,
S.W.1.

Registry

No. ~~VR 1076/~~ ~~76~~

Top Secret.
Secret.
Confidential.
Restricted.
Open.

GGA

Draft.

NOTHING TO BE WRITTEN IN THIS MARGIN.

Arab/Israel Conflict
 The conflict between the Arab states and Israel is most damaging to our policies in the Middle East and to our political and commercial interests in the area. Fear and hatred of Israel blind the Arabs to the Soviet threat and inhibit their willing co-operation with the West. So long as we are faced with their resentment at the creation of Israel and their humiliation at their defeat in the fighting of 1948, we shall not be able to rely on the stability of their attitude towards the Western world.

The Israelis, seeing the balance of power and influence in the Middle East moving steadily against them, and faced with the implacable hostility of the Arab states, are tempted to adopt reckless courses before it is too late. Their growing aggressiveness could easily lead to a renewal of fighting, in which H.M. Government would probably be involved and which might end in the loss of many of our valuable assets in the Arab world.

Far from easing the situation, as we once hoped, the passage of time makes it more dangerous and more intractable. It was in the conviction that *the situation* it must be stabilized quickly that Sir Anthony Eden suggested to Mr. Dulles last autumn that *the US & UK* our two Governments should urgently examine the possibility of bringing about a settlement. Mr. Dulles agreed; and *a plan* detailed proposals for a possible settlement *has been* worked out by the F.O. and the State Department. It is hoped that

/discussions

48
discussions with the parties will be opened
very soon.

There can be no settlement of the
Palestine affair unless Israel pays
compensation for the abandoned property of the
Arab refugees. It is not possible to say in
advance exactly what sum would be arrived at
during the course of negotiations; but it is
thought, after consideration of all Israeli
counter-claims, that the payment of about
£100 million will be necessary. Much of this
sum will have to be provided from loans by
H.M. Government and the U.S. Government, but
the Israelis will have to raise some of it from
their own resources and from world Jewry,
partly to reduce the burden on the Western
Governments and partly to show the Arabs that
the Jews have made some sacrifice.

No decision has yet been taken on
the question of a loan by H.M. Government. But
if it is agreed that we should contribute, as
part of a general settlement, to the sum which
Israel will have to pay, it is the intention
that H.M. Government's loan should be limited
to £15 million, on the understanding that the
U.S. Government will provide £50 million.
Assuming the total to be £100 million and
allowing £5 million for loans from other
Governments, the Israelis would have to raise
£30 million from their own resources and from
world Jewry. The Foreign Office have suggested
that they should be allowed to seek about
£15 million of this, over ten years, by the
sale of Israel Government bonds in the United

/Kingdom

NOTHING TO BE WRITTEN IN THIS MARGIN.

Kingdom and sterling Commonwealth.

As you know, we have hitherto refused permission for the Israel Government to raise funds in the United Kingdom. But in view of our interest in a settlement of their dispute with the Arab States, we should find it difficult to maintain our attitude if we could make some progress towards a general settlement such as we have in mind. We could hardly propose to the Israel Government that they should raise money from world Jewry and then put obstacles in the way of their doing so in the United Kingdom. Nor would the Americans, who are our partners in this venture and who place no restrictions on the raising of large sums in the United States, understand our refusal to permit the sale of bonds here in the context of a general Palestine settlement.

As we need to take a decision on this very soon, I should be grateful for your views.

You will readily understand the extreme secrecy of this matter: if either side suspected in advance that we were discussing proposals for a settlement our hopes (and these are in any case not very high) of a successful outcome to any negotiations we may enter on would be dashed. I hope, therefore, that you will be able to restrict the circulation of this letter for the present strictly to those who need to know.

NOTHING TO BE WRITTEN IN THIS MARGIN.

E.R.

Mr. Kickett

4/6/55

102

we agreed this morning that the letter to the Bank should go from you. I shall hope later to-day to submit a draft Cabinet Paper for the Chancellor to circulate next week.

TOP SECRET

MR. ARMSTRONG

c.c. Colonel Russell Edmunds

Mr. Lee

Handwritten initials and date 6/6

Plan for Arab/Israel settlement

'X' below A suggested draft letter for Sir Leslie Rowan to send to the Governor of the Bank of England is submitted below. The draft has been cleared with Mr. Shillito.

'A' in folder below 2. Sir Leslie Rowan last saw this case on 29th April (his minutes dated 27th and 29th April). He will like to glance at the following papers -

- 'B' ibid (i) Chancellor's letter dated 4th May to the Foreign Secretary
- 'C' " (ii) the Foreign Secretary's reply dated 6th May
- 'D' " (iii) the Chancellor's further letter dated 7th May
- 'E' " (iv) the Foreign Secretary's reply dated 11th May
- 'F' " (v) the Chancellor's further letter dated 13th May
- 'G' " (vi) my note dated 13th May of a discussion which Mr. Compton, Mr. Shillito and I had with Mr. O'Brien
- 'H' " (vii) Foreign Office telegram No. 2337 dated 15th May to Washington (repeated to Cairo).

'Y' below 3. Sir Leslie Rowan will like to know that Sir Alexander Johnston held a meeting yesterday which was attended by you, Mr. Shillito, Colonel Russell Edmunds and myself to consider the draft Cabinet paper which, we understand, will be put in by the Foreign Secretary for consideration by his colleagues in the week beginning 13th June. The paper asks for authority to undertake, as part of the proposed Arab/Israel settlement, the following commitments -

- (a) a loan to Israel of the order of £15 m.
- (b) the provision of facilities for the sale of Israel Government bonds in the United Kingdom.

/It

It was decided at Sir Alexander Johnston's meeting that we should recommend the Chancellor to put in a separate paper dealing fully with all the financial implications of the proposed settlement. This paper is now being drafted.

4. As you know, I have been pressing the Foreign Office to allow us to write a letter to the Bank of England to get their considered views about the two commitments referred to in paragraph 3 above. The Foreign Office have only just given me clearance on this point. Hence the draft letter to the Governor of the Bank of England below.

5. The other development which I should mention is that we have drafted a letter to Mr. Milner at Cairo seeking his advice on the various financial problems raised by this plan for an Arab/Israel settlement, and particularly on the danger of inflation in the Arab states from payment of £100 m. by Israel. The terms of the draft are now being cleared with the State Department so that they may simultaneously send an identical letter to the two U.S. Treasury Representatives in the Middle East.

(A. K. POTTER)

4th June 1955

E.R.

104

TOP SECRET

Mr Richett

DRAFT LETTER from ~~Sir Leslie Rowan~~ to
Governor of Bank of England

Plan for Arab/Israel settlement

The problem presented by the conflict between the Arab States and Israel and the plan which was being prepared by the Foreign Office with the object and hope of resolving this conflict, were mentioned to you by ^{Rowan} me in April in connection with two proposals included in the plan, viz.

(a) that H.M.G. should make Israel a loan of £15 m.

(b) that facilities should be provided for the sale of Israel Government bonds in the

U.K.

We do learn

~~I understand~~ that the Foreign Secretary will shortly be asking his colleagues to give their general blessing to the plan and in particular to authorize him to incur the commitments referred to at (a) and (b) above.

2. As regards the background to all this I think the Foreign Office position can be stated as follows.

[The Arab/Israel conflict is most damaging to the policies and the political and commercial interests of the U.K. in the Middle East. Fear and

/hatred

hatred of Israel blind the Arabs to the Soviet threat and inhibit their willing co-operation with the West. So long as they harbour resentment at the creation of Israel and feel humiliation at their defeat in the fighting of 1948, there can be no reliance on the stability of their attitude towards the Western world.

The Israelis, seeing the balance of power and influence in the Middle East moving steadily against them, and faced with the ~~implacable~~ hostility of the Arab states, are tempted to adopt reckless courses before it is too late. Their growing aggressiveness could easily lead to a renewal of fighting, in which H.M. Government would probably be involved and which might end in the loss of many of our valuable assets in the Arab world.

Far from easing the situation, as was once hoped, the passage of time makes it more dangerous and intractable. It was in the conviction that the situation must be stabilized quickly that Sir Anthony Eden suggested to Mr. Dulles last autumn that the U.S. and U.K. Governments should urgently examine the possibility of bringing about a settlement. Mr. Dulles agreed; and a plan for a possible settlement has accordingly been worked out by the ~~F.O.~~ ^{Foreign Office} in collaboration with the State Department.

3. On the financial side the plan envisages payment of a net sum of £100 m. by Israel to the Arabs over a period of about ten years. The receipt of a sum of this size in the Arab countries will itself present big problems if ~~some~~ ^{inordinate} inflation is to be avoided, and the fullest consideration will

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106

have to be given to this aspect of the plan. However the first question is ^{is} how is Israel to find £100 m. ^{?"} The plan envisages that at least £30 m. should be provided by the Israel Government, either from their own resources or by themselves raising the money elsewhere. Of the balance of £70 m. it is proposed that £50 m. should be made available to Israel by gift or loan from the U.S. Government, £15 m. by loan from H.M.G. and perhaps £5 m. from the French and other Governments.

4. It is regarded as essential, if the plan is to have any prospect of success that Israel should find, and be seen by the Arabs to find, a substantial part of the £100 m. from her own resources. The only way in which she can conceivably do this is felt to be by supplementing such budgetary contributions as ^{from internal sources} she can make, with funds raised through the sale of bonds to world Jewry. The Americans consider that the U.S.A. as a source of such funds is drying up, and they are pressing us to permit the sale of Israel Government bonds in the U.K. and the sterling Commonwealth. The Foreign Office believe that unless ^{this is permitted} ~~H.M.G.~~ permit this, a real difficulty in the way of Anglo-American co-operation over the settlement plan will arise.

/5. It

5. It is of course uncertain to what extent Israel Government bonds could in fact be sold in this country except on artificially attractive terms. Tentatively the idea is that the maximum which Israel could contribute from internal sources would be £10 m. and that about £20 m. would therefore have to be raised from the sale of bonds to world Jewry, of which the major part, say £15 m., would have to come from Jews in the U.K. and sterling Commonwealth if in fact Jewish sources in the U.S.A. are drying up.

6. The proposals both for the U.K. Government loan of £15 m. and for the sale of Israel Government bonds in the U.K. affect our capital position and involve a load on our economy. As regards this aspect, however, it has to be borne in mind that as the payment of the £100 m. by Israel to the Arabs may be spread over as long as ten years, it should be possible to spread the disbursement of the U.K. Government loan over a number of years.

7. Apart from the possibilities of danger of disturbance to the market if the Israel Government is permitted to sell its bonds in this country, the main danger lies in repercussions on our relations with our sterling Commonwealth and Scandinavian friends. The difficulty here would perhaps be eased if the terms of the bonds were such that they were more akin to a charitable appeal than an ordinary market issue.

8. In case the sale of bonds in this country and in some other countries of the sterling Commonwealth is permitted, it will be necessary to consider how

/to

E.R.

108

to limit the total amount which Israel can draw in this way. In connection with this point, it will be useful to have ^{the} ~~your~~ views ^{of the Bank of England} on the recent decision of the Irish Republic to allow the sale of Israel bonds and on the extent to which residents of the U.K. and other sterling Commonwealth countries can, if they so wish, invest in the bonds on sale in Eire.

9. We shall have to brief the Chancellor on all this immediately he returns to London on 13th June. We ourselves are now considering the problems referred to in paragraphs 6, 7 and 8 above. I shall be most grateful if we may have your considered views as soon as possible.

Mr Kahn

F.O. proposals for Palestine settlement

The Foreign Office are about to circulate to the Cabinet, for decision soon after the Chancellor returns, a paper seeking authority for their proposals for a settlement of the Arab/Israel dispute; the main financial items are;

- (i) a loan from H.M.G. to Israel of £15m spread over 10 years, and repayable over a much longer period.
- (ii) permission to Israel to raise money in the U.K. (and sterling area) by the sale of bonds, up to a limit of £15m (also over the same period).

The attached draft paper for the Chancellor to circulate has been prepared by I.F. - with two gaps (§ 2(c) and § 4) for us to fill in. I am pursuing the first of these with H.F.

110
and the Bank, but I should like your help with the second. To some extent we have to anticipate the result of the exercise on capital commitments which Mr. Richett and you are organising. (It may be argued that the commitments involved here are relatively small — £3m a year for 10 years — but Sir Leslie Brown wants us nevertheless to bring in the prospective capital burden as part of the background).

Might we have a word this morning? We are aiming to send the draft over to the Chancellor in Paris tomorrow — though we shall have to look at it again when the F.O. paper is finally circulated later this week.

W

6/6

E.R.

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MR. W. ARMSTRONG

We cannot of course anticipate the present exercise on capital commitments except in the most general terms - and even that is no more than a vague impression. I would suggest the following for paragraph 4:-

"So far from achieving the overall surplus of £300 million on Current Account in our balance of payments which we have said that we need over the average of the years to meet our obligations for the development of the sterling area and to maintain our position in the world, it looks as though we may fail to secure any surplus at all in the present year. It will take very considerable efforts to restore the position. Looking ahead, there is no particular reason to suppose things will become easier for us, and there are many directions in which new burdens and obligations must be accepted. Foremost among these is the £80 million a year which is the estimated cost of maintaining our Forces in Germany. Although the financial assistance to Israel now in question is a relatively small sum, Israel is a relatively small country, and the various small sums which we are asked to provide for our own small colonies and in other directions add up in total to an important item.

E.C.R.

(E. C. R. Kahn)
6th June 1955

TOP SECRET

C (55)

June, 1955

Draft

CABINET

PALESTINE SETTLEMENT

Memorandum by the Chancellor of the Exchequer

I fully realise the importance and the advantages of a settlement of the Palestine question and I accept that we will need to make a financial contribution towards a settlement in conjunction with the U.S. Government. My colleagues will no doubt wish to know as much as possible of the financial implications and practical difficulties of settlement on the basis proposed in C(55)96. In the first place, it is clear that our very desire to bring about a settlement will place a powerful weapon in the hands of the Arab countries which they will no doubt seek to use to extract from ourselves and from the U.S. Government the maximum possible financial assistance in other directions. As far as the U.K. is concerned, this is particularly true of Jordan, to which we are already giving assistance for the Arab Legion and for development totalling about £11 million a year. It is not possible to assess this danger in financial terms, but everything possible must clearly be done to guard against it in the course of negotiations.

2. In the second place, a number of financial points arise in connection with the proposed compensation to be paid by Israel to Arab refugees. These points, which have since the date of the previous Cabinet paper been the subject of detailed discussion between the Foreign Office and the Treasury and subsequently with the Americans, are set out below.

- (a) The total figure of £100 million has in itself no very firm basis and it is impossible to say at this stage that it will in fact be acceptable to both parties. The Arabs will naturally want more, but we can rely on the Israelis to demand that the amount should be less. It is the firm intention of both parties to the present Anglo-American discussions that £100 million should be the maximum, but great skill in negotiation will be required to hold the amount to that figure.

/(b)

(b) It is the intention that at least £30 million should be provided by the Israeli Government, either from their own resources or by themselves raising the money elsewhere. Of the balance of £70 million it has been suggested that £50 million should be made available to Israel by gift or loan from the U.S. Government, £15 million by loan from H.M. Government, and perhaps £5 million by gift or loan from the French and other Governments. The question of a U.K. loan of the amount suggested has yet to be decided; but in any case it is important that we should not, in addition to promising a contribution towards the balance of £70 million, get ourselves into the position of in any way underwriting the sum to be provided by the Israeli Government. Our offer should be presented in such a way that we are not committed to contribute more than £15 million; the balance after taking account of the American and other contributions, to be found by the Israeli Government as best they can.

(c) It would be impossible for the Israeli Government successfully to float a loan on the London market. It has been suggested that we might be able to modify our existing policy as regards access by foreign Governments to borrowing in this country, to the extent of allowing the sale of Israel Government bonds here. However the question of such sale present serious difficulties.

[O.F. may wish to recast this sub-paragraph.]

(d) There would be grave danger of serious inflation in the Arab countries concerned if a sum of the size of £100 million were disbursed there in uncontrolled fashion, even over a period. The distribution of large numbers of relatively small sums to uneducated individuals, not used to handling money, could easily lead to the ultimate beneficiaries being thieves, cheats and speculators. The price of land and other forms of investment could rise to astronomical figures: leaving the original recipients of the benefits with a rankling sense of grievance that they had received no real compensation for what they had lost.

*Rate of interest
Sugg. is that Israel might hope to get about 15% from U.K. and U.S. Govts.*

114

Possible ways of controlling the disbursement are being examined in consultation with the Americans. The Arab Governments concerned will have to be brought into consultation in due course.

(e) The assessment of the individual amounts of compensation in such a way as broadly to satisfy the claimants and lead to an effective lessening of tension in the area, are matters of extreme difficulty. Possible methods are under examination but it is clear that we must firmly insist on the Arab Governments taking full responsibility for the results of whatever system is eventually decided upon, and for meeting the complaints of the individual claimants who feel themselves aggrieved.

(f) Apart from the claims of individual refugees to lost property there are a number of inter-governmental and inter-municipal claims which will no doubt be put forward on both sides during the course of negotiations. It is the intention that these should be regarded as cancelling each other out, but no doubt there will be hard bargaining which might, unless we are very careful, alter the whole picture considerably.

(g) U.N.R.W.A. will have a large part to play in distributing the compensation and seeing that it is used to the best advantage in resettling the refugees. This will mean that the organisation will have to continue to exist for at least ten years, whereas its present agreed lease of life is for another five years. We know from the fact of American participation in the proposals for a settlement that the U.S. Government, who contribute about 70% of U.N.R.W.A.'s funds would be prepared to continue their support of U.N.R.W.A. for the required period. In the case of other contributors, we need to do all we can, at the appropriate time, to get them to continue their support of the Agency after five years and for as long as necessary; and, in the context of a general settlement, they may well be disposed to do so. The question of the cost to U.N.R.W.A. of the functions it will undertake in connection with the compensation also requires further examination.

3. All these points require and are receiving further urgent examination. Every effort will be made to devise satisfactory solutions of them before any

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115

firm financial commitments are made. However, I feel that my colleagues should be aware that there are bound to remain financial and other uncertainties about the scheme which can only be cleared up finally after the decision in principle has been taken to go ahead with the proposed settlement and in the course of negotiations with Israel and the Arab countries.

4. What we can afford to make by way of a financial contribution towards a settlement must take account of our overseas payments position.

[O.F. to develop as they would like.]

[Therefore, a contribution of the maximum order of £15 million by way of loan assistance to Israel must entail countervailing savings in our overseas payments].

5. Finally, once we embark on the negotiations for a settlement, we may be driven to fulfil the purpose at a cost greatly in excess of the £100 million figure. I trust we shall not find ourselves in the position that, after disclosing our views about aid in the negotiations, we are pressed to provide financial aid in the hope of an eventual settlement.

4th June, 1955.

TOP SECRET

116

7th June, 1955.

Plan for Arab/Israel settlement

You will remember that Rowan mentioned to you some weeks ago a plan which the Foreign Office were preparing to try and solve the Arab/Israel conflict. As you know, the plan included two proposals:-

- (a) that H.M.G. should make a loan to Israel of £15 million;
- (b) that facilities should be provided for the sale of Israel Government Bonds in the United Kingdom.

We now learn that the Foreign Secretary will shortly be asking his colleagues to give their general blessing to the plan, and in particular to authorise him to incur the commitments referred to at (a) and (b) above.

/I enclose

C.F. Cobbold, Esq.,
Bank of England.

117

I enclose a note setting out the background to this proposal and the points on which we shall have to reach a decision. We shall have to brief the Chancellor on all this as soon as he returns to London on 13th June. We ourselves are considering the problems referred to in the last three paragraphs of the note. I should be most grateful if we might have your views on this matter as soon as possible.

D. H. F. Rickett
(D.H.F. RICKETT)

TOP SECRET

118

PLAN FOR ARAB/ISRAEL SETTLEMENT

The Arab/Israel conflict is most damaging to the policies and the political and commercial interests of the U.K. in the Middle East. Fear and hatred of Israel blind the Arabs to the Soviet threat and inhibit their willing co-operation with the West. So long as they harbour resentment at the creation of Israel and feel humiliation at their defeat in the fighting of 1948, there can be no reliance on the stability of their attitude towards the Western world.

The Israelis, seeing the balance of power and influence in the Middle East moving steadily against them, and faced with the hostility of the Arab states, are tempted to adopt reckless courses before it is too late. Their growing aggressiveness could easily lead to a renewal of fighting, in which H.M. Government would probably be involved and which might end in the loss of many of our valuable assets in the Arab world.

Far from easing the situation, as was once hoped, the passage of time makes it more dangerous and intractable. It was in the conviction that the situation must be stabilized quickly that Sir Anthony Eden suggested to Mr. Dulles last autumn that the U.S. and U.K. Governments should urgently examine the possibility of bringing about a settlement. Mr. Dulles agreed; and a plan for a possible settlement has accordingly been worked out by the Foreign Office in collaboration with the State Department.

On the financial side the plan envisages payment of a net sum of £100 m. by Israel to the Arabs over a period of about ten years. The receipt of a sum of this size in the Arab countries will itself present big problems if considerable inflation is to be avoided, and the fullest consideration will have to be given to this aspect of the plan. However, the first question is "How is Israel to find £100 m.?" The plan envisages that at least £30 m. should be provided by the Israel Government, either

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from their own resources or by themselves raising the money elsewhere. Of the balance of £70 m., it is proposed that £50 m. should be made available to Israel by gift or loan from the U.S. Government, £15 m. by loan from H.M.G., and perhaps £5 m. from the French and other Governments.

It is regarded as essential, if the plan is to have any prospect of success that Israel should find, and be seen by the Arabs to find, a substantial part of the £100 m. from her own resources. The only way in which she can conceivably do this is felt to be by supplementing such contributions as she can make from internal sources with funds raised through the sale of bonds to world Jewry. The Americans consider that the U.S.A. as a source of such funds is drying up, and they are pressing us to permit the sale of Israel Government bonds in the U.K. and the sterling Commonwealth. The Foreign Office believe that unless this is permitted, a real difficulty in the way of Anglo-American co-operation over the settlement plan will arise.

It is of course uncertain to what extent Israel Government bonds could in fact be sold in this country except on artificially attractive terms. Tentatively the idea is that the maximum which Israel could contribute from internal sources would be £10 m., and that about £20 m. would therefore have to be raised from the sale of bonds to world Jewry, of which the major part, say £15 m., would have to come from Jews in the U.K. and sterling Commonwealth if in fact Jewish sources in the U.S.A. are drying up.

The proposals both for the U.K. Government loan of £15 m. and for the sale of Israel Government bonds in the U.K. affects our capital position and involve a load on our economy. As regards this aspect, however, it has to be borne in mind that as the payment of the £100 m. by Israel to the Arabs may be spread over as long as ten years, it should be possible to spread the disbursement of the U.K. Government loan over a number of years.

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Apart from the possibilities of danger of disturbance to the market if the Israel Government is permitted to sell its bonds in this country, the main danger lies in repercussions on our relations with our sterling Commonwealth and Scandinavian friends. The difficulty here would perhaps be eased if the terms of the bonds were such that they were more akin to a charitable appeal than an ordinary market issue.

In case the sale of bonds in this country and in some other countries of the sterling Commonwealth is permitted, it will be necessary to consider how to limit the total amount which Israel can draw in this way. In connection with this point, it will be useful to have the views of the Bank of England on the recent decision of the Irish Republic to allow the sale of Israel bonds and on the extent to which residents of the U.K. and other sterling Commonwealth countries can, if they so wish, invest in the bonds on sale in Eire.

7th June, 1955.

TOP SECRET

C (55)

June, 1955

Draft

CABINET

PALESTINE SETTLEMENT

Memorandum by the Chancellor of the Exchequer

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to give
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the table*

I fully realise the importance and the advantages of a settlement of the Palestine question and I accept that we will need to make a financial contribution towards a settlement in conjunction with the U.S. Government. My colleagues will no doubt wish to know as much as possible of the financial implications and practical difficulties of settlement on the basis proposed in C(55)96. In the first place, it is clear that our very desire to bring about a settlement will place a powerful weapon in the hands of the Arab countries which they will no doubt seek to use to extract from ourselves and from the U.S. Government the maximum possible financial assistance in other directions. As far as the U.K. is concerned, this is particularly true of Jordan, to which we are already giving assistance for the Arab Legion and for development totalling about £11 million a year. It is not possible to assess this danger in financial terms, but everything possible must clearly be done to guard against it in the course of negotiations.

2. In the second place, a number of financial points arise in connection with the proposed compensation to be paid by Israel to Arab refugees. These points, which have since the date of the previous Cabinet paper been the subject of detailed discussion between the Foreign Office and the Treasury and subsequently with the Americans, are set out below.

- (a) The total figure of £100 million has in itself no very firm basis and it is impossible to say at this stage that it will in fact be acceptable to both parties. The Arabs will naturally want more, but we can rely on the Israelis to demand that the amount should be less. It is the firm intention of both parties to the present Anglo-American discussions that £100 million should be the maximum, but great skill in negotiation will be required to hold the amount to that figure.

122

(b) It is the intention that at least £30 million should be provided by the Israeli Government, either from their own resources or by themselves raising the money elsewhere. Of the balance of £70 million it has been suggested that £50 million should be made available to Israel by gift or loan from the U.S. Government, £15 million by loan from H.M. Government, and perhaps £5 million by gift or loan from the French and other Governments. The question of a U.K. loan of the amount suggested has yet to be decided; but in any case it is important that we should not, in addition to promising a contribution towards the balance of £70 million, get ourselves into the position of in any way underwriting the sum to be provided by the Israeli Government. Our offer should be presented in such a way that we are not committed to contribute more than £15 million; the balance after taking account of the American and other contributions, to be found by the Israeli Government as best they can.

(c) It would be impossible for the Israeli Government successfully to float a loan on the London market. It has been suggested that we might be able to modify our existing policy as regards access by foreign Governments to borrowing in this country, to the extent of allowing the sale of Israel Government bonds here. However the question of such sale present serious difficulties.

[O.F. may wish to recast this sub-paragraph.]

(d) There would be grave danger of serious inflation in the Arab countries concerned if a sum of the size of £100 million were disbursed there in uncontrolled fashion, even over a period. The distribution of large numbers of relatively small sums to uneducated individuals, not used to handling money, could easily lead to the ultimate beneficiaries being thieves, cheats and speculators. The price of land and other forms of investment could rise to astronomical figures: leaving the original recipients of the benefits with a rankling sense of grievance that they had received no real compensation for what they had lost.

*F.O. idea is
Israel might
get about £15m
in this way from
U.K. and R.S.A.*

Possible ways of controlling the disbursement are being examined in consultation with the Americans. The Arab Governments concerned will have to be brought into consultation in due course.

- (e) The assessment of the individual amounts of compensation in such a way as broadly to satisfy the claimants and lead to an effective lessening of tension in the area, are matters of extreme difficulty. Possible methods are under examination but it is clear that we must firmly insist on the Arab Governments taking full responsibility for the results of whatever system is eventually decided upon, and for meeting the complaints of the individual claimants who feel themselves aggrieved.
- (f) Apart from the claims of individual refugees to lost property there are a number of inter-governmental and inter-municipal claims which will no doubt be put forward on both sides during the course of negotiations. It is the intention that these should be regarded as cancelling each other out, but no doubt there will be hard bargaining which might, unless we are very careful, alter the whole picture considerably.
- (g) U.N.R.W.A. will have a large part to play in distributing the compensation and seeing that it is used to the best advantage in resettling the refugees. This will mean that the organisation will have to continue to exist for at least ten years, whereas its present agreed lease of life is for another five years. We know from the fact of American participation in the proposals for a settlement that the U.S. Government, who contribute about 70% of U.N.R.W.A.'s funds would be prepared to continue their support of U.N.R.W.A. for the required period. In the case of other contributors, we need to do all we can, at the appropriate time, to get them to continue their support of the Agency after five years and for as long as necessary; and, in the context of a general settlement, they may well be disposed to do so. The question of the cost to U.N.R.W.A. of the functions it will undertake in connection with the compensation also requires further examination.

3. All these points require and are receiving further urgent examination. Every effort will be made to devise satisfactory solutions of them before any

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124

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4. What we can afford to make by way of a financial contribution towards a settlement must take account of our overseas payments position.

[O.P. to develop as they would like.]

[Therefore, a contribution of the maximum order of £15 million by way of loan assistance to Israel must entail countervailing savings in our overseas payments.]

5. Finally, once we embark on the negotiations for a settlement, we may be driven to fulfil the purpose at a cost greatly in excess of the £100 million figure. I trust we shall not find ourselves in the position that, after disclosing our views about aid in the negotiations, we are pressed to provide financial aid in the hope of an eventual settlement.

4th June, 1955.

W. Armstrong
TREASURY CHAMBERS,
GREAT GEORGE STREET,
LONDON, S.W.1.

To confirm

8th June, 1955.

My dear Kestie,

W. Armstrong

I enclose a copy of a draft Cabinet Paper which Rickett and I have prepared and which we are now clearing with I.F.

We do not suggest that you should show it to the Chancellor at this stage, but we thought you would like to see it in good time and give us any amendments you thought ought to be made, so that we can get it to the Chancellor early next week.

Paragraph 5(b) has been written in advance of the detailed views which the Bank have promised to let us have by the end of this week on the proposals about the sale of Israeli bonds in this country. At lunch to-day the Governor told Rickett that he thought their view would be that if H.M.G. decide, for overriding political reasons, it was necessary to agree to this, the Bank would not object - but they would probably suggest that it ought to be explained in advance to the Finance Ministers of Commonwealth countries and perhaps also to the Norwegians.

Yours ever

W. Armstrong

(W. ARMSTRONG)

Sir Leslie Rowan, K.C.B., C.V.O.
PARIS

TOP SECRET

C.(55)

June, 1955

Approved by the Chancellor
with amendment

12/6
GH 14/6

D R A F T

C A B I N E T

PALESTINE SETTLEMENT

Memorandum by the Chancellor of the Exchequer

My colleagues will wish to have my views on the financial considerations which arise in connection with the very important proposals outlined in the Foreign Secretary's memorandum (C(55)).

2. The main financial proposals for which the Foreign Secretary seeks the authority of the Cabinet are in connection with the proposed compensation to be paid by the Government of Israel to Arab refugees. It will be recalled that this has been fixed at \$100 million, of which \$50 million is to be made available to Israel by gift or loan from the U.S. Government and, say, \$5 million by gift or loan from the French or other Governments, and that

(a) H.M.G. should lend a sum of the order of \$15 million to the Government of Israel;

(b) In order to assist the Government of Israel in finding the \$30 million remaining, permission should be given for the sale of Israeli Government bonds, in the United Kingdom and elsewhere in the Sterling Area in the expectation that in this way the Government of Israel might raise about \$15 million.

3. If these proposals were carried out the effect would be to place on the U.K. economy a burden of about \$30 million spread over a period of about ten years. The question is not only whether the advantages to be secured from the proposed settlement are commensurate with an additional burden of the size, but also whether we can afford it - that is to say, whether it is consistent with our declared policy of working consistently for the strengthening of sterling and our external payments position.

4. I shall shortly be bringing before my colleagues estimates of our balance of payments position over the coming twelve months. Without anticipating these it can be said now that so far from

/achieving

127

achieving the overall surplus of £300 million on Current Account in our balance of payments which we have said that we need over the average of the years to meet our obligations for the development of the Sterling Area and to maintain our position in the world, it looks as though we may fail to secure any surplus at all in the present year. It will take very considerable efforts to restore the position. Looking ahead, there is no particular reason to suppose things will become easier for us, and there are many directions in which new burdens and obligations must be accepted. Foremost among these is the £80 million a year which is the estimated cost of maintaining our Forces in Germany. Although the financial assistance to Israel now in question is a relatively small sum, we cannot consider this proposal in isolation. It is the cumulative effect of a series of commitments such as these, each of them no doubt justified on their individual merits, which may easily in the aggregate place too great a strain upon our balance of payments and our economic resources.

5. So much for the general background against which the questions raised by the Foreign Secretary must be decided. The two propositions themselves raise a number of specific points:-

- (a) The proposed loan by H.M.G. would have to be made, as is admitted in C(55)96, on very doubtful security - indeed in my view we should be deceiving ourselves if we expected much of it ever to be repaid.

Nevertheless, I can see that it is important from the presentational point of view that it should be described as a loan - so that the Arabs at any rate may think that it is to come from the resources of Israel in the long run. Such considerations may also suggest that the rate of interest should be on normal lines.

/(b) The

(b) The proposal that the Government of Israel should be allowed to sell bonds here, raises a number of points of special difficulty. In the first place it will clearly be essential to avoid anything which might be construed as a commitment on our part that any given amount will be forthcoming from this source, since if in fact it did not prove possible for the Government of Israel to raise as much as they expected, they would be tempted to turn to us for the balance. At the same time it would probably be necessary to put a limit on the amount to be raised in this way so as to avoid an open-ended commitment. ~~In order to distinguish the operation quite clearly from normal borrowing and to ensure that as far as possible the money attracted comes from genuine sympathisers with Israel, it will probably be necessary to insist that a purely nominal rate of interest is offered.~~ Even so, the proposal is bound to have repercussions on our policy towards the overseas use of our capital resources. We have so far consistently followed a policy of preserving our limited supply of long-term capital for the development of the Commonwealth, and the demands for capital for this purpose have always been as much as if not more than we could manage. In particular, the Colonial Secretary is facing the position that a number of Colonies will have difficulty in obtaining as much as they had hoped from the London capital market. In these circumstances we have had to refuse access to the market to a number of would-be borrowers from outside the Commonwealth, including the Norwegians whose economic development it would be most advantageous to us to assist if we could. So far the disappointed applicants from the Commonwealth and elsewhere have accepted our arguments that we are doing as much as we can possibly afford; it would clearly be difficult to justify to them the provision of special facilities for Israel.

6. Against this background, whatever may be decided about the Government-to-Government loan, I would suggest that we should consider whether the proposed facilities for the sale of Israeli bonds should not be omitted from the proposals, at any rate at the outset, and that our representatives should merely say that we expect the Israeli Government to produce £30 million from its own resources. It may well be that the Israelis would feel able to produce this sum, or at least a larger part of it than the Foreign Secretary at present expects. At any rate I think we should throw upon them the onus of showing that they cannot do so without additional special facilities.

7. In addition to these major issues there are a number of points which have already been the subject of discussion between the Foreign Office and the Treasury, and subsequently with the Americans, and on which further work will be required. These are:-

- (a) The total figure of £100 million has in itself no very firm basis and it is impossible to say at this stage that it will in fact be acceptable to both parties. The Arabs will naturally want more, but we can rely on the Israelis to demand that the amount should be less. It is the firm intention of both parties to the present Anglo-American discussions that £100 million should be the maximum, but great skill in negotiation will be required to hold the amount to that figure.
- (b) There would be grave danger of serious inflation in the Arab countries concerned if a sum of the size of £100 million were disbursed there in uncontrolled fashion, even over a period. The distribution of large numbers of relatively small sums to uneducated individuals, not used to handling money, could easily lead to the ultimate beneficiaries being thieves, cheats and speculators. The price of land and other

/forms of

forms of investment could rise to astronomical figures: leaving the original recipients of the benefits with a rankling sense of grievance that they had received no real compensation for what they had lost.

- (c) The assessment of the individual amounts of compensation in such a way as broadly to satisfy the claimants and lead to an effective lessening of tension in the area, are matters of extreme difficulty. Possible methods are under examination but it is clear that we must firmly insist on the Arab Government taking full responsibility for the results of whatever system is eventually decided upon, and for meeting the complaints of the individual claimants who feel themselves aggrieved.
- (d) Apart from the claims of individual refugees to lost property there are a number of inter-governmental and inter-municipal claims which will no doubt be put forward on both sides during the course of negotiations. It is the intention that these should be regarded as cancelling each other out, but no doubt there will be hard bargaining which might, unless we are very careful, alter the whole picture considerably.
- (e) U.N.R.W.A. will have a large part to play in distributing the compensation and seeing that it is used to the best advantage in resettling the refugees. This will mean that the organisation will have to continue to exist for at least ten years, whereas its present agreed lease of life is for another five years. We know from the fact of American participation in the proposals for a settlement that the U.S. Government, who contribute about 70% of U.N.R.W.A.'s funds, would be prepared to continue their support of U.N.R.W.A. for the required period. In the case of other contributors, we need to do all we can, at the appropriate time, to get them to

/continue

negotiation. We must also, of course, be on our guard against the possibility that we become committed financially before we are certain that a settlement will in fact be reached. It must be clear throughout that our financial help will be forthcoming in return for a settlement but not otherwise.

continue their support of the Agency after five years and for as long as necessary; and, in the context of a general settlement, they may well be disposed to do so. The question of the cost to U.N.R.W.A. of the functions it will undertake in connection with the compensation also requires further examination.

8. Finally, as the Foreign Secretary admits, there is a very real danger that once we embark on these negotiations we will be pressed to accept further financial commitments. It is clear that our very desire to bring about a settlement will place a powerful weapon in the hands of the Arab countries which they will no doubt seek to use to extract from ourselves and from the U.S. Government the maximum possible financial assistance in other directions. As far as the U.K. is concerned, this is particularly true of Jordan, to which we are already giving assistance for the Arab Legion and for development totalling about £11 million a year. It is not possible to assess this danger in financial terms, but everything possible must clearly be done to guard against it in the course of negotiation.

9. To sum up, if the Foreign Secretary feels that it is an essential part of his proposals that we should be willing to incur the financial obligations discussed above, I am prepared reluctantly to agree despite the misgivings which I cannot but feel about the cumulative effect of this and other similar commitments upon our external economic position. In any event, however, I suggest that for the reasons given in paragraphs 4 and 5 above, we should consider whether the proposed loan from H.M.C. should not be for a smaller amount and we should at least in the first instance avoid proposing to the Israelis any special facilities for raising money here.

9th June, 1955.

134

TREASURY CHAMBERS,
GREAT GEORGE STREET,
LONDON, S.W.1.

8th June, 1955.

I enclose a copy of a draft Cabinet Paper which Rickett and I have prepared and which we are now clearing with I.F.

We do not suggest that you should show it to the Chancellor at this stage, but we thought you would like to see it in good time and give us any amendments you thought ought to be made, so that we can get it to the Chancellor early next week.

Paragraph 5(b) has been written in advance of the detailed views which the Bank have promised to let us have by the end of this week on the proposals about the sale of Israeli bonds in this country. At lunch to-day the Governor told Rickett that he thought their view would be that if H.M.G. decide, for overriding political reasons, it was necessary to agree to this, the Bank would not object - but they would probably suggest that it ought to be explained in advance to the Finance Ministers of Commonwealth countries and perhaps also to the Norwegians.

(W. ARMSTRONG)

Sir Leslie Rowan, K.C.B., C.V.O.
PARIS

E.R.

S. A. Johnston.

I agree with this draft. But I gather that it is
not our intention to send it forward in this form
at present. JRS 9/6

8/6

3/57E

133

SECRET

SIR ALEXANDER JOHNSTON

cc: Col. Russell Edmunds

Palestine Settlement

I attach a revised draft of Col. Russell Edmunds' draft Cabinet Paper on this subject. I have agreed this with Mr. Rickett but it requires confirmation from Sir Leslie Rowan, who is at present in Paris and to whom I have sent a copy, while paragraph 5(b) anticipates to some extent the views of the Bank of England, who have promised us a letter by the end of the week.

Subject to clearance from these quarters and your own views we would hope that the draft could be submitted to the Chancellor immediately on his return to the office on Monday next.

Meanwhile I think it would be desirable to send a copy of the draft (omitting the last paragraph which we should reserve for the Chancellor) in the next day or so, so as to let them know how our minds are working.

? to Mr. F.O. /



(W. ARMSTRONG)

8th June, 1955.

A.S. 9/6.

TOP SECRET

G(55)

June, 1955

D R A F T

CABINET

PALESTINE SETTLEMENT

Memorandum by the Chancellor of the Exchequer

My colleagues will wish to have my views on the financial considerations which arise in connection with the very important proposals outlined in the Foreign Secretary's memorandum (C(55)).

2. The main financial proposals for which the Foreign Secretary seeks the authority of the Cabinet are in connection with the proposed compensation to be paid by the Government of Israel to Arab refugees. It will be recalled that this has been fixed at £100 million, of which £50 million is to be made available to Israel by gift or loan from the U.S. Government and, say, £5 million by gift or loan from the French or other Governments, and that

- (a) H.M.G. should lend a sum of the order of £15 million to the Government of Israel;
- (b) in order to assist the Government of Israel in finding the £30 million remaining, permission should be given for the sale of Israeli Government bonds, in the United Kingdom and elsewhere in the Sterling Area, in the expectation that in this way the Government of Israel might raise about £15 million.

3. If these proposals were carried out the effect would be to place on the U.K. economy a burden of about £30 million spread over a period of about ten years. The question is not only whether the advantages to be secured from the proposed settle-

/ment

hwe cannot consider this proposal in isolation. It is the cumulative effect of a series of commitments such as these, each of them no doubt justified on their individual merits, which may easily in the aggregate place too great a strain upon our balance of payments and our economic resources.

FOR.

settlement are commensurate with an additional burden of this size, but also whether we can afford it - that is to say, whether it is consistent with our declared policy of working consistently for the strengthening of sterling and our external payments position.

4. I shall shortly be bringing before my colleagues estimates of our balance of payments position over the coming twelve months. Without anticipating these it can be said now that so far from achieving the overall surplus of £300 million on Current Account in our balance of payments which we have said that we need over the average of the years to meet our obligations for the development of the Sterling Area and to maintain our position in the world, it looks as though we may fail to secure any surplus at all in the present year. It will take very considerable efforts to restore the position. Looking ahead, there is no particular reason to suppose things will become easier for us, and there are many directions in which new burdens and obligations must be accepted. Foremost among these is the £80 million a year which is the estimated cost of maintaining our Forces in Germany. Although the financial assistance to Israel now in question is a relatively small sum,

~~Israel is a relatively small country, and the various small sums which we are asked to provide for our own small colonies and in other directions add up in total to an important item.~~

5. So much for the general background against which the questions raised by the Foreign Secretary must be decided. The two propositions themselves raise a number of specific points:-

- have to be made*
- (a) The proposed loan by H.M.G. would ^{be} as is admitted in C(55)96, on very doubtful security - indeed in my view we should be deceiving ourselves if we expected much of it ever to be repaid. Nevertheless, I can see that it is important from the presentational point of view that it should be described as a loan - so that the Arabs at any rate

/may

K.R.

may think that it is to come from the resources of Israel in the long run. Such considerations may also suggest that the rate of interest should be on normal lines.

- (b) The proposal that the Government of Israel should be allowed to sell bonds here, raises a number of points of special difficulty. In the first place it will clearly be essential to avoid anything which might be construed as a commitment on our part that any given amount will be forthcoming from this source, since if in fact it did not prove possible for the Government of Israel to raise as much as they expected, they would be tempted to turn to us for the balance. At the same time it would probably be necessary to put a limit on the amount to be raised in this way so as to avoid an open-ended commitment. In order to distinguish the operation quite clearly from normal ~~operating~~ ^{borrowing} and to ensure that as far as possible the money attracted comes from genuine sympathisers with Israel, it will probably be necessary to insist that a purely nominal rate of interest is offered. Even so, the proposal is bound to have repercussions on our policy towards the overseas use of our capital resources. We have so far consistently followed a policy of preserving our limited supply of long-term capital for the development of the Commonwealth, and the demands for capital for this purpose have always been as much as, if not more than, we could manage. In particular, the Colonial Secretary is facing the position that a number of Colonies will have difficulty in obtaining as much as they had hoped from the London capital market. In these circumstances we have had to refuse access to the market to a number of would-be borrowers from outside the Commonwealth, including the Norwegians whose economic

/development

K.R.

development it would be most advantageous to us to assist if we could. So far the disappointed applicants from the Commonwealth and elsewhere have accepted our arguments that we are doing as much as we can possibly afford; it would clearly be difficult to justify to them the provision of special ~~advantages~~ ^{facilities} for Israel.

6. Against this background, whatever may be decided about the Government-to-Government loan, I would suggest that we should consider whether the proposed facilities for the sale of Israeli bonds should not be omitted from the proposals, at any rate ~~from~~ ^{at} the outset, and that our representatives should merely say that we expect the Israel Government to produce £30 million from its own resources. It may well be that the Israelis would feel able to produce this sum, or at least a larger part of it than the Foreign Secretary at present expects. At any rate I think we should throw upon them the onus of showing that they cannot do so without additional special facilities.

7. In addition to these major issues there are a number of points which have already been the subject of discussion between the Foreign Office and the Treasury, and subsequently with the Americans, and on which further work will be required. These are:-

(a) The total figure of £100 million has in itself no very firm basis and it is impossible to say at this stage that it will in fact be acceptable to both parties. The Arabs will naturally want more, but we can rely on the Israelis to demand that the amount should be less. It is the firm intention of both parties to the present Anglo-American discussions that £100 million should be the maximum, but great skill in negotiation will be required to hold the amount to that figure.

(b) There would be grave danger of serious inflation in the Arab countries concerned if a sum of the size of

£100 million

£100 million were disbursed there in uncontrolled fashion, even over a period. The distribution of large numbers of relatively small sums to uneducated individuals, not used to handling money, could easily lead to the ultimate beneficiaries being thieves, cheats and speculators. The price of land and other forms of investment could rise to astronomical figures: leaving the original recipients of the benefits with a rankling sense of grievance that they had received no real compensation for what they had lost.

- (c) The assessment of the individual amounts of compensation in such a way as broadly to satisfy the claimants and lead to an effective lessening of tension in the area, are matters of extreme difficulty. Possible methods are under examination but it is clear that we must firmly insist on the Arab Government taking full responsibility for the results of whatever system is eventually decided upon, and for meeting the complaints of the individual claimants who feel themselves aggrieved.
- (d) Apart from the claims of individual refugees to lost property there are a number of inter-governmental and inter-municipal claims which will no doubt be put forward on both sides during the course of negotiations. It is the intention that these should be regarded as cancelling each other out, but no doubt there will be hard bargaining which might, unless we are very careful, alter the whole picture considerably.
- (e) U.N.R.W.A. will have a large part to play in distributing the compensation and seeing that it is used to the best advantage in resettling the refugees. This will mean that the organisation will have to continue to exist for at least ten years, whereas its present agreed lease of life is for another five years. We know from the fact of American participation in the proposals

I am prepared reluctantly to agree despite the misgivings which I cannot but feel about the cumulative effect of this and other similar commitments upon our external economic position.

I hope, ^{if we are assured of} know, that these substantial concessions will lead to ~~firm~~ ~~in return for~~ a real ^{and lasting} settlement. ~~settlement~~

for a settlement that the U.S. Government, who contribute about 70% of U.N.R.W.A.'s funds would be prepared to continue their support of U.N.R.W.A. for the required period. In the case of other contributors, we need to do all we can, at the appropriate time, to get them to continue their support of the Agency after five years and for as long as necessary; and, in the context of a general settlement, they may well be disposed to do so. The question of the cost to U.N.R.W.A. of the functions it will undertake in connection with the compensation also requires further examination.

8. Finally, as the Foreign Secretary admits, there is a very real danger that once we embark on these negotiations we will be pressed to accept further financial commitments. It is clear that our very desire to bring about a settlement will place a powerful weapon in the hands of the Arab countries which they will no doubt seek to use to extract from ourselves and from the U.S. Government the maximum possible financial assistance in other directions. As far as the U.K. is concerned, this is particularly true of Jordan, to which we are already giving assistance for the Arab Legion and for development totalling about £11 million a year. It is not possible to assess this danger in financial terms, but everything possible must clearly be done to guard against it in the course of negotiation.

9. To sum up, if the Foreign Secretary feels that it is an essential part of his proposals that we should be willing to incur the financial obligations discussed above, ^hI suggest that ~~we must consider very seriously whether in the present state of our external economic position we can afford to undertake them.~~ In any event I suggest that for the reasons given in paragraph ^{4 and} 5 above we should consider whether the proposed loan from H.M.G. should not be for a smaller amount and ^{be} should at least in the first instance avoid proposing to the Israelis any special facilities for raising money here.

7th June, 1955.

SECRET

136

*has Armstrong.
I think we should do
the idea of a
concessionary interest
with: Doyne u/b*

Bank of England

10th June 1955.

Dear Mr. Rickett,

Plan for Arab/Israel Settlement

In the absence of the Governor, I am replying to your letter of 7th June on this subject.

The most important question, to our mind, is that of the effect on our relations with the Commonwealth and Scandinavia of allowing the sale of Israeli bonds in this country and, to a lesser extent, of the increased pressures from would-be borrowers in other countries to which we may be subjected. This is, of course, primarily a political question and therefore not our direct concern; but our view, for what it is worth, is that H.M.G.'s action would have to be defended on the grounds of the exceptional nature of the operation and the importance of the object in view. The presentation of the project would obviously be important.

We have, however, some doubts about the suggestion in the Note which you enclosed that the Israeli bonds should, for presentational reasons, be sold on "charitable appeal" terms. The question of terms is, of course, a matter primarily for the Israelis; but an issue on such a basis would be an innovation for them, and perhaps not a welcome one, in view of the effect it would obviously have on the total subscribed. With a Tap issue, such as this would almost certainly be, it is, of course, impossible to align the terms closely with Market rates, other than quite temporarily; but the probability is that in order to maximise receipts the Israelis would wish, if they were designing an issue specially for this Market, to offer more, rather than less, than the general level of rates which they expected to obtain during the period that the Tap was open. It is more probable still that they would want, as in other countries, to use a tranche of their current Tap issues which are designed mainly for the U.S. market. In any event, however, the special system of distribution through volunteers which the Israelis would no doubt wish to use here, as they have done elsewhere, would serve to distinguish the operation from ordinary Market issues.

As regards the imposition of limits on the amounts to be issued, I should have thought that this could easily be done, perhaps over periods of six months, through the mechanism of the C.I.C.

I enclose a note setting out what we know of the history and results of Israel's oversea bond offerings. From the scanty figures we have of their receipts from countries other than the U.S.A., I am left in considerable doubt as to whether they would succeed in raising £15 million from the U.K. and sterling Commonwealth, even over an extended period. I need hardly add that we feel it would be most important to make clear that there could be no question of any short-fall being underwritten by H.M.G.

You will also see from the note enclosed that we have little information bearing specifically on the issue of Israeli bonds in Eire.

Yours sincerely,

JACB Mynors

D.H.F.Rickett, Esq., C.B., C.M.G.

ISRAEL

The history of Israel's external bond issues may be summarised as follows.

In March 1951 the U.S. Securities and Exchange Commission approved a \$500 million "Independence issue" to be made in the United States. The securities were a 15-year 3½% Bond and a 12-year Saving Bond carrying no interest, but redeemable at 150% at maturity. Both securities were issued at par and were non-transferable until 1954, after which they might be exchanged for bearer. When the Tap was closed in 1954 \$134½ million of Bonds had been sold.

In March 1954 a "Development issue" of up to \$350 million was authorised for sale both in the United States and abroad. The securities in this case were a 15-year Bond, carrying interest at 4%, and a 10-year Saving Bond, redeemable at 150%, both issued at par and both non-transferable until July 1959. This issue is still running.

Both the Independence and the Development issues carry special rights of early redemption in the event of the death of an original subscriber. Interest and principal are payable in U.S. dollars, with the holder having the right to opt for redemption in Israeli currency. The distribution of both issues was made, not through Market channels, but through a special voluntary organisation.

We know little of the operations in Eire except that permission for the sale of bonds in that country was given in February of this year. We then considered whether any action was called for on our part. We concluded that the Exchange Control could do nothing and that the attraction of the issue to U.K. residents was likely to be so slight that we need make no representations to the Eire Authorities.

In January 1955 it was claimed that sales of these bonds had been allowed in -

U.S.A.
Canada
Mexico
Uruguay
Venezuela
Cuba
Peru
Puerto Rico
Holland
Belgium
Switzerland
and 14 other countries.

Total sales in 1953 are given as \$36.8 million, and in 1954 as \$40.5 million; it is clear that the bulk of these are made in United States. It is said that in 1954 \$1.1 million were sold in Holland and \$0.75 million in Switzerland.

E.R.

13/6/58
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140
TOP SECRET

1. MR. RICKETT 13/6. cc: Sir Alexander Johnston
2. SIR LESLIE ROWAN B.G. " attached for Economic Secretary
3. MR. PETCH

PALESTINE SETTLEMENT

Memorandum by the Foreign Secretary -
C.P.(55)35

A After many changes of plan the Foreign Office have now asked that their proposals for the Palestine Settlement be taken by the Cabinet on Thursday next and have circulated the attached memorandum by the Foreign Secretary.

This follows the draft which we were given last week and on the basis of which we warned the Foreign Office that we thought the Chancellor would wish to circulate a paper himself on the financial aspects.

B The draft of such a paper is below. It was prepared at a time when we thought the Foreign Office wished the matter to be taken tomorrow and was approved by Sir Alexander Johnston and Sir Herbert Brittain for that purpose. Since then we have had the views of the Bank (letter of 10th June below) on the question of the sale of Israeli bonds in this country; the only alteration that is required in the paper is the deletion of the fourth sentence of paragraph 5(b) dealing with the rate of interest. I have also added a sentence to paragraph 8 to deal with a point made by Colonel Russel Edmunds in his minute of 10th June below.

C The main point of the paper is not to oppose the financial side of the Foreign Secretary's proposals, but to bring home to the Cabinet the difficulties which they present for us, particularly in the present balance of payments situation, and to urge as strongly as possible that these should be minimised by

- (a) reducing, if possible, the amount to which we are committed for a Government-to-Government loan;

/b)

(b) not including in our initial offer the proposal to make facilities here for the sale of Israeli bonds but conceding this only if the Israelis can show clearly that they would be unable to raise the whole of their share of the compensation payments from their own existing resources.

(W. ARMSTRONG)

13th June, 1955.

I agree with this paper; but it will be realized

a) this is entirely a political loan; we shall probably not see it back and it involves in any case the extra burden on the Economy.

b) I dislike the bond issue ideas very much
c) given the state of the capital market we may not be able this year to satisfy Australia (£20m) or Russians (£10). We shall therefore be putting the solution of this problem possibly before the next development

TJR 13.VI.

SIR ALEXANDER JOHNSTON

COPY TO:- Mr. W. Armstrong

G.P. (55)35 and G.P. (55)36

PALESTINE SETTLEMENT

The Chancellor is already very familiar with this subject and the second of these two papers represents his own reactions to the first, put in by the Foreign Secretary, and to Sir Anthony Eden's paper C. (55)96 of 6th April. The Chancellor's paper follows closely in its later stages a text which the Chancellor approved in April, but brings out more clearly the Balance of Payments difficulties, particularly in relation to Commonwealth policy, of paying large sums to Israel, and the objections to allowing the sale of Israeli Bonds in the Sterling Area. The statement of the latter follows closely the advice given to us by the Bank of England.

2. It is recommended that the Chancellor should if possible, for the reasons given in his paper, persuade his colleagues to agree to the omission of any offer of facilities for the sale of Israeli Bonds at the outset. Apart from this, having brought the financial difficulties and dangers to the notice of the Chancellor and through him to the notice of his colleagues, the Treasury do not wish to advise him definitely to oppose the whole plan. The factors involved are largely political in nature. We must recognise the importance to the whole world of arriving at a settlement in the Middle East. Mr. Dulles is personally very interested in the plan and it would be greatly to the disadvantage of the U.K. if the Americans were to go ahead with it, and bring it to success, without U.K. participation. It is for Ministers to decide whether these factors are of sufficient weight to override the financial difficulties we have pointed out. But one danger must be avoided: that we should become involved in financial commitments which we could not subsequently escape, without positive assurance that they will lead to a real and effective settlement. If there is any suggestion that we should make definite offers in the hope that the Arabs and Israelis will thereby be persuaded to settle their differences, it is recommended that the Chancellor should oppose it strongly.

14th June, 1955.

A. E. DRAKE

TOP SECRET

ic/6/54

142



143

Mr W^m Armstrong

Paper approved by
Ch/Ex & sent
for circ in
midday box today
for discⁿ at
Thursday's Cab.

RSB

Mr Dale 14/6

line spoke. You
understood to
prepare a brief

② 14/6

Mr Patch

Palestine Settlement

O.F. agree with the brief
put up by I.F.

The Chancellor may
like to see the attached
letter in which the
views of the Bank are
set out

Wh
15/6

Mr. Lichett

I doubt whether we
need add anything to this
brief, which Mr. Drake prepared
after a word with me.

My feeling is that we
have said all that we need
to say in the paper itself.

(I regret that the papers
including the Cabinet papers
are unavailable, keep
with Alice Johnston

in a strong ^{Dohe} ~~at~~

I think that

Chancellor might

like to see Mr. Bank

views.

DRH

Wh
15/6
18/6

SECURITY CLASSIFICATION

Periodical Office Notices on Security inter alia enjoin Administrative Officers to indicate whenever a file marked TOP SECRET or SECRET no longer requires to be so marked.

It would be appreciated if this file could be kept under constant review and directions for downgrading or desecretizing be issued by initialing and dating the appropriate space below.

If downgrading or desecretizing cannot be recommended at present, it is requested that where possible some indication should be given as to a date or after what period of time such action will be possible or when further consideration should be given to the classification of the file.

Directions for downgrading or desecretizing should not be given by an officer below the rank of Principal.

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Downgrade to SECRET	Desecretize	Reconsider :-
or	or	(a) after months after years
Date for Downgrading	Date for Desecretizing	(b) on this date
Initials and	Initials and	Initials and
Date	Date	Date

[Handwritten signature]
23/5/62



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Israeli-Arab settlement involving Israeli compensation to Arab refugees. 1955. MS Refugee Records from the Offices of the United Kingdom, 1947-1970 T 236/4423. The National Archives (Kew, United Kingdom). Refugees, Relief, and Resettlement, link.gale.com/apps/doc/IAXEQS665121205/RRRW?u=omni&sid=bookmark-RRRW&pg=1. Accessed 6 Apr. 2024.

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